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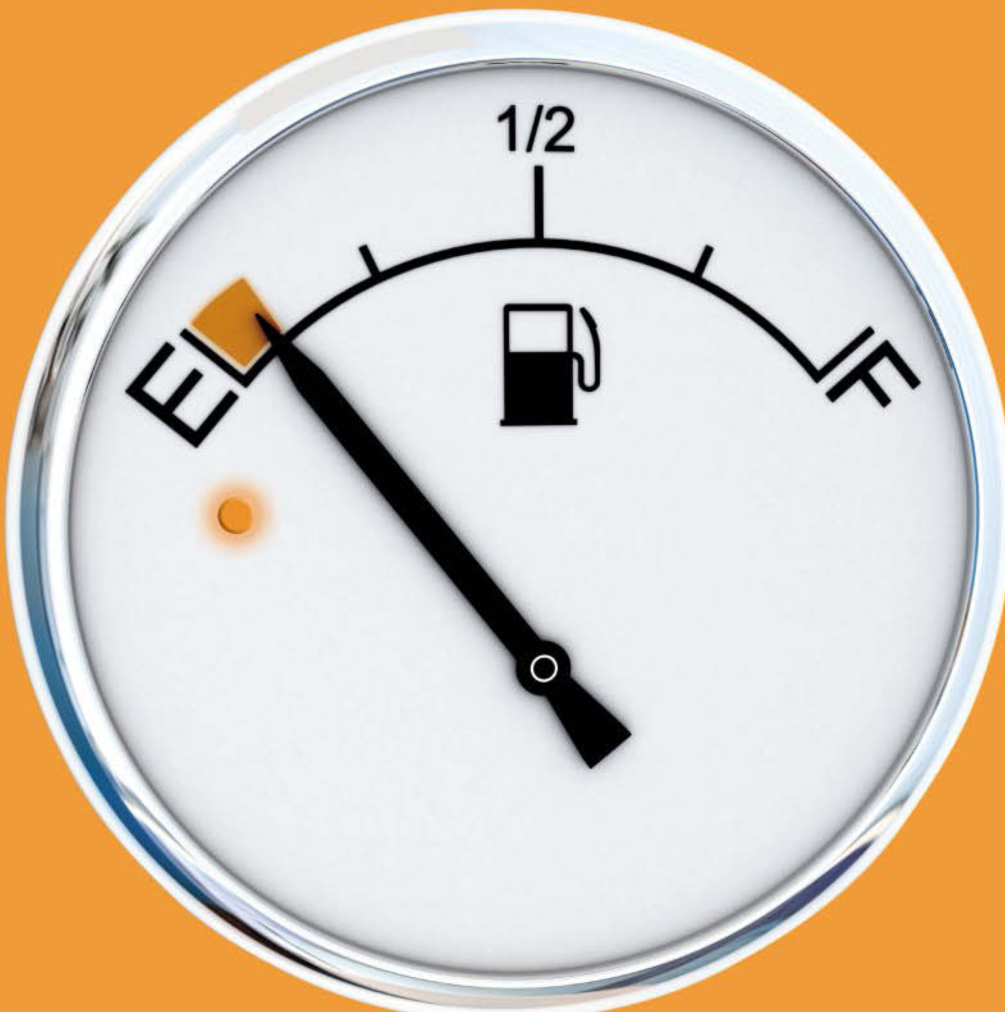

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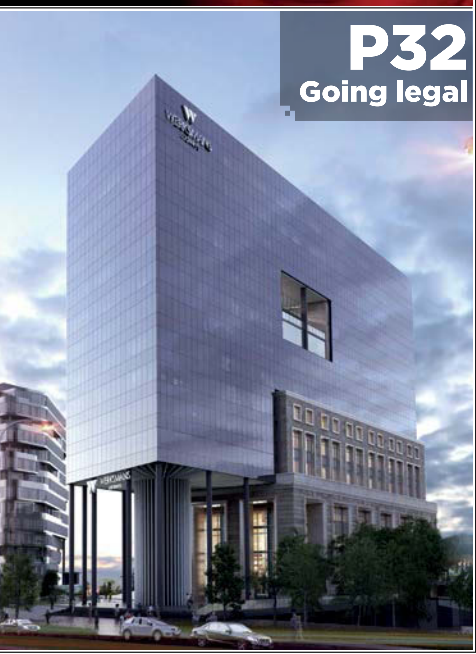

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SA ECONOMY:
THE CENTRE CANNOT HOLD

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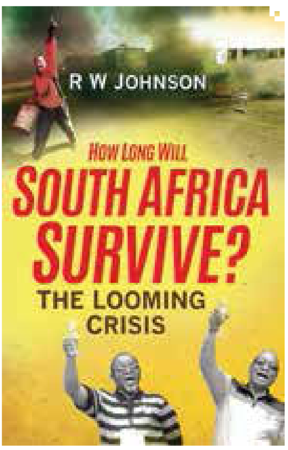

A LOOMING CRISIS?

FINWEEK EDITOR **JANA MARAIS** WRITES:

An expat emailed from Germany this week, saying he is busy reading RW Johnson's new book *How long will SA survive? The looming crisis*, describing it as "the first book that comprehensively describes what the ANC government is doing to the country. And it is shocking. The ANC government is set on nothing other than to enrich itself." He continues: "To be honest, I see no future anymore for the rainbow nation."

Now, I haven't read Johnson's book, but recently finished Michael Lewis's brilliant *Flash Boys*, which looks at the rise of high-frequency trading in US equity markets. For what it's worth, when it comes to rigging the system and screwing over Joe Public for personal enrichment, the ANC is nowhere near the big leagues.

Looking at the state of the economy, as Tina Weavind does in this week's cover story (page 16), it is easy to "see no future". We face serious challenges – high unemployment, declining manufacturing output, warnings of load-shedding for the next two years according to Eskom, credit ratings that hover just above junk status (and a rand that seems there already), the prospect of rising interest rates… No wonder investors are increasingly looking to take their money offshore (see page 45).

Perhaps we can all do with a bit of perspective, as Wayne McCurrie points out in the cover story. Sure, the economy is barely growing, but at least we're not Brazil, which is on the brink of its worst recession since 1990. We're not sentencing political dissidents to death (anymore), like Egypt is doing on an almost daily basis. Corruption is a problem, but not nearly as big as it is in China, India and Nigeria. We may not all like President Jacob Zuma, but aren't you glad you're not dealing with Vladimir Putin?

Yes, South Africa isn't the wonderful country it could be, but to say that it has no future? I think history has shown we're much more resilient than Johnson is giving us credit for. ■

Double take

finweek

In Brief

7

The number of people who have died to date due to exploding airbags. Tokyo-based airbag supplier Takata agreed in May to double its US recall to a record of nearly 34m vehicles to fix its defective airbags. While Honda has been the most heavily affected by the recall, other manufacturers including Toyota, Ford, General Motors, Nissan and BMW have also been impacted. The defect can cause airbags to deploy with explosive force, sending metal shrapnel hurtling towards drivers and passengers, AFP reported.

R10.9M

Vodacom CEO **Shameel Joosub's** total remuneration in the year to end March, more than R2m less than his earnings the previous year. The decline was mainly due to a 39% cut in his bonus to R3.7m, according to Vodacom's annual report. Chief financial officer Ivan Dittrich saw his pay decline 17% to R6.2m, while chief technology officer Andries Delport's package fell from R6.3m to R6m.

35 000 000 000 000 000

The number of Zimbabwean dollars you need to receive one US dollar as the Zimbabwean government phases out its national currency. Zimbabwe switched to the US dollar and rand in 2009 after the Zim dollar was ruined by hyperinflation, which hit 500bn percent in 2008, the UK's *The Guardian* reported. Customers who held Zimbabwean dollar accounts before March 2009 can now ask their banks to convert their balances into US dollars at the above exchange rate.

$1.5BN

The amount (R18.6bn) China's top taxi-hailing app, which is backed by Alibaba and Tencent, is expected to raise in a new funding round as it battles increased competition from private car-booking companies such as Uber. The funding round values Xiaoju Kuaizhi, which runs the Didi and Kuadi apps, at up to $15bn (R186bn), Bloomberg reported.

$40BN

The amount (R495bn) of damages claimed by **Maurice Greenberg**, former CEO of AIG, in a class-action suit brought against the US government. Greenberg argued that the Federal Reserve overstepped its legal powers when it bailed out AIG at the height of the financial crisis in 2008. A judge ruled on 15 June that the Fed had crossed the legal line when it demanded a 79.9% stake in AIG as a bailout condition, but declined to award any damages. Without the bailout, which eventually totalled $185bn (R2.3tr), AIG would have gone bankrupt, the judge said.

35%

The expected decline in this year's maize harvest in Zimbabwe compared to 2014, according to the UN Food and Agriculture Organisation, as drought and a decline in free fertilizer and seed distribution from government hurt harvests. The country will need to import about half the maize it requires this year.

THE **GOOD**

Musician, anthropologist and former anti-apartheid activist Johnny Clegg (61), internationally known as the "White Zulu", is to be awarded the Office of the Order of the British Empire (OBE) by Queen Elizabeth later this year. Clegg, who was born in the UK but moved to what is now Zambia when he was only six months old, described the award as a career highlight.

THE **BAD**

Industry and civil society groups are slamming an application by embattled power utility Eskom for a 25.3% hike in the price of electricity for the 2015/16 financial year, including the 12.69% increase that has already been approved by regulator Nersa. The additional increase is sought to pay for its open-cycle gas turbines and short-term power purchase programme while it battles to complete new power stations Medupi and Kusile.

THE **UGLY**

Sudanese president Omar Al-Bashir, who is sought by the International Criminal Court (ICC), was allowed to leave South Africa following the AU Summit, despite a court order to have him arrested. The ICC is seeking to hold him responsible for genocide, war crimes and crimes against humanity. He oversaw a civil war that led to the deaths of an estimated 300 000 people and the displacement of 2.5m.

$388M

The amount (R4.8bn) billionaire investor Warren Buffett will pay for a 3.7% stake in Insurance Australia Group (IAG) as he targets the growing Asian insurance market, *The Guardian* reported. In terms of the deal, Buffett's Berkshire Hathaway will receive 20% of IAG's gross written premium and pay 20% of its claims for the next decade.

$17-$19

The expected price per Fitbit share (R210-R235) in its initial public offering (IPO), an increase from its previous guidance, according to filings with the Securities and Exchange Commission. At the midpoint of the new price range, Fitbit would be valued at nearly $3.7bn (R45.8bn), *The New York Times* reported. Fitbit, which was founded in 2007, sells wearable devices that allow consumers to track their physical activity, heart rate and calories burned.

"Our troops in Darfur are already vulnerable. They've been led into traps numerous times and had their weapons confiscated. If there was a confrontation, I have no doubt that the South Africans would have returned in body bags. They have been deployed as peacekeepers, not as combat troops. If the threatening situation is confirmed, South Africa has no other option than to withdraw its troops from such an impossible situation." – Military expert Helmoed-Römer Heitman comments on a report in *Beeld* that South African peacekeepers were held hostage in Sudan to ensure the safe departure of Sudanese President Omar Al-Bashir from the AU Summit in Johannesburg.

PRISTINE ALASKAN WATERS – FOR NOW

Pawn Patel from Minnesota prepares to take a midnight swim in the Arctic at Barrow, the USA's northernmost city. Barrow, in Alaska, has become the new frontier in the fight against climate change, with activists opposing Shell's plans to do offshore exploration drilling in Alaska's Chukchi Sea, about 160km from Barrow. Despite the protests, Shell's drilling rig, the Polar Pioneer, left Seattle's harbour for the Arctic on 15 June. The Arctic holds about 27bn barrels of recoverable oil, according to US government estimates.

Picture: David L. Ryan/*The Boston Globe* via Getty Images

The future of **retail loyalty**

BY LAMEEZ OMARJEE

Say goodbye to loyalty cards because mobile applications are set to replace traditional loyalty programmes.

Businesses can set up loyalty programmes on mobile applications in the same way as cards, offering cash rewards, coupons or discounts. This offers convenience to consumers who won't have to carry cards anymore, says Nolan Daniel, director at Paradigm Group.

Consumers get more benefits in that customised marketing and relevant information is sent to them through notifications and messages from organisations. This also benefits businesses in building customer relations with real-time consumer engagement, says Daniel. Card loyalty programmes often send promotional materials to consumers' addresses, which often just end up in the dustbin, adds Shadab Rahil, director of Paradigm Group. Additionally mobile applications save businesses the cost of producing and distributing cards and promotional material, says Rahil.

There is also a more secure component to mobile applications in that points earned are linked to the consumer's number. Your phone might get stolen, but no one can steal your cellphone number, which means points won't be lost, says Rahil. Consumers can block loyalty programmes online and respond in real time, adds Daniel.

Businesses can also collect data on consumers, such as their buying patterns. "You [businesses] can really decide how much data you want to use… You can get specific information on individuals or you can get information on the user base as a whole," says Daniel.

Depending on the capabilities of the business's IT systems, it is possible to use geo-tracking to engage with consumers in real time. This way, consumers can be notified of discounts and other special offers at nearby stores. Their movements in stores can be tracked to identify areas where they spend a lot of time and deduce what they like, explains Daniel.

Two types of tracking technology can be used. Geo-fencing can track consumers within 20km of a store. Bluetooth low energy is used in stores, tracking consumers from 50cm to 50 metres away, says Daniel. Consumers are informed of tracking technology in the terms and conditions of mobile applications. They have a choice to opt out and simply use their phones to earn reward points, he says.

If communication tools are not used correctly, consumers could become irritated with spam messages and notifications and opt out, warns Rahil. Marketing intelligence is needed to tap into the use of mobile loyalty programmes. "You need to be relevant and offer them useful information that will save them extra money and be beneficial to them," he advises.

A lot of businesses have been finalising and testing these mobile applications. It is not likely that cards will disappear in the near future. South African markets are "heavily banked" and consumers use cards. Getting consumers to migrate to mobile-based solutions could be slower, says Rahil. It could take three to four years to have a sizeable penetration of mobile loyalty and payment solutions in South Africa as smartphones become more available. The opposite is true for the rest of Africa, where mobile solutions are prevalent, he says. ■

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Gallo Images/iStock

4m

The number of dollar millionaires in China in 2014, an increase of 1m from 2013, according to the latest *Global Wealth* report by Boston Consulting Group (BCG). China has the world's second-largest population of dollar millionaires, with the US in first place with 7m, it said. The rise in Chinese private wealth was largely driven by a surging stock market, which was up 38% last year, according to BCG. Japan made up third place, with 1m millionaire households last year.

17m

The total number of millionaire households last year, an increase of 13%. Global private wealth grew by about 12% last year to $164tr, the BCG report found. In the Asia-Pacific region, private wealth grew by 29% last year to $47tr to make it the world's second-wealthiest region, replacing Europe. North America, with $51tr in private wealth, remains the richest region in 2014. Asia-Pacific is expected to overtake North America next year as the richest region in the word, BCG said.

On 16 June, an Egyptian court upheld a death sentence against ousted president Mohamed Morsi and other Muslim Brotherhood leaders in a case that relates to their escape from prison during the 2011 revolution. At the time, Morsi was detained without charge. He fled the prison after it was stormed and guards overpowered during the uprisings that eventually ended President Hosni Mubarak's 30-year reign. Morsi, who subsequently became Egypt's first democratically elected president, was removed from power by the Egyptian military in July 2013 following days of mass protests. The Muslim Brotherhood has since been declared a terrorist organisation in Egypt.


Gallo Images/iStock

LETTER FROM NIGERIA. LETTER FROM NIGERIA.

House of Cards: Nigeria edition

Just when you think you have the lie of the land in Nigeria, there's another political tremor. And just when you think you're used to life with tremors, Nigeria will give you a political earthquake.

The simultaneous beauty and discomfort of this is that no one can ever quite settle to something. You're always looking over your shoulder at the younger guy or the person in the chair next to you who is more ambitious. You cannot ever assume you have sussed the system's ability to shock and therefore you cannot ever know what will happen tomorrow, much less the next day.

As I am writing, Nigeria is reeling, giggling, gasping and rubbing its hands together following the goings on at the country's National Assembly on 9 June that saw Bukola Saraki elected senate president, a role perceived as less powerful only than the president and vice-president.

Saraki, a senator of the incumbent All Progressives Congress (APC), but notably not the APC's first choice for senate president, won the leadership of Nigeria's upper chamber after finding support from within the opposition People's Democratic Party (PDP), who left government last month.

Nigeria watchers have noted that President Muhammadu Buhari's APC comprises many former members of the PDP, following mass defections over the past two years of the PDP administration. Notably, Saraki himself is a former PDP man.

One defection might have left you suspicious of that man's intentions – either for leaving your party or for joining your party, but imagine tens of defections. How much trust can there be in the upper echelons of Nigerian politics when there's little clarity day to day about whether you're on the same side or opposing sides, briefing against one another or in favour of one another?

Bukola Saraki

It would take more space than this page affords to describe the agendas that led to these results, but if you're watching *House of Cards*, you can imagine the sort of scene. The goings-on have left Buhari, who was given a clear mandate by the population in March's election, with a tough legislative job on his hands.

> "IT MIGHT BE FUN TO WRITE AND ARGUE ABOUT IN THEORY, BUT IN PRACTICE THERE ARE **170M** NIGERIANS WAITING FOR THEIR POLITICIANS TO DO BETTER BY THEM."

All this in a country that is crying out for stability, for predictability and for the enforcement of the radical legislative agenda Buhari promised during his campaign. It might be fun to write and argue about in theory, but in practice there are 170m Nigerians waiting for their politicians to do better by them.

The goings-on at the Senate are thought to be as much to do with positioning for the 2019 Nigerian general election as they are to do with disrupting the law-making process of the next few months and years.

Knowing how fast and dramatically the Nigerian political arena changes, I wouldn't be so naïve as to draw predictions for 2019 on the basis of these latest developments. But I would advise investors and observers to keep a close eye on Bukola Saraki.

Right now, all I can say for sure is that we need to hold on tight: it's going to be (another) bumpy ride. ■

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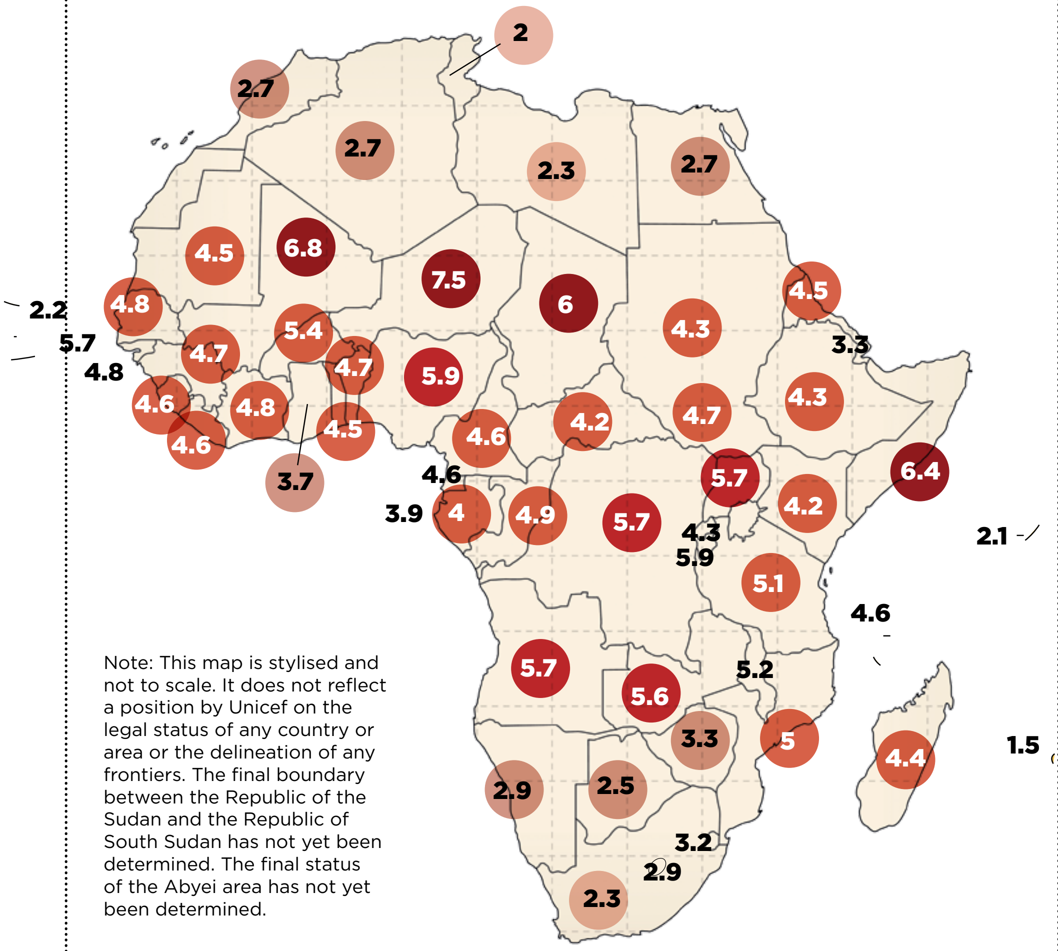
Challenges for a youthful continent

Africa will have the youngest population in the world by the end of the century. Policies of each African country should be geared towards making the continent more youth-friendly and address issues such as rapid population growth and urbanisation, according to the Unicef *Generation 2030* report.

Other issues that should be addressed include the high rates of adolescent pregnancies expected over the next 15 years. In countries such as Niger, where child marriage of girls under the age of 18 is at 76%, it is important that women's rights are central to change and growth in the region.

It is also imperative to pay special attention to Nigeria as it is expected to have the highest number of births on the continent. By 2050, one in every 11 of the world's babies will be born in Nigeria, which will experience more than 360m births in the next 35 years.

TOTAL FERTILITY IN COUNTRIES IN AFRICA, 2015
CHILDREN PER WOMAN



Note: This map is stylised and not to scale. It does not reflect a position by Unicef on the legal status of any country or area or the delineation of any frontiers. The final boundary between the Republic of the Sudan and the Republic of South Sudan has not yet been determined. The final status of the Abyei area has not yet been determined.

SOURCE: UNICEF analysis based on UN WPP 2012 revision

1.8bn

In 2015-2050, 1.8bn babies will be born in Africa, 700m more than in 1980-2015, according to Unicef. On average each woman will have 4.7 children, which is high compared to about 2.5 in the rest of the world. Niger has the highest number of children born to one woman at 7.5. Ninety-eight per 1 000 births in Africa are from teenage girls aged 15-19.

25M

Cairo, currently the city on the continent with the biggest population, will see its populace grow from 19m to 25m, while the population of Lagos will boom from about 13m currently to 24m in 2030. It is projected that by the late 2030s, 60% of Africa's population will be living in urban areas, compared to a current 40%. Other countries that will experience rapid urban growth include Gabon, Libya, Algeria, Tunisia and Morocco. Some countries such as Burundi and Malawi will remain very rural.

1BN

There will be 1bn under-18s in Africa by 2050. This will equate to almost 40% of the world's total population. Currently, Africa has more child-dependent households than the rest of the world and 73 of every 100 working persons in Africa are children under the age of 15. This is double the world average. By 2035, Africa will have first generation of children that will reach the pensionable age of 65.

48%

The proportion of sub-Saharan Africa's population who live in extreme poverty, or on less than \$1.25 (R15.53) per day. About 70% of the region's population live on less than \$2 (R24.78) a day. Around a quarter of the continent's population resides in 20 African countries deemed fragile and conflict-affected, which continues to undermine human rights as well as social and economic progress.

Social expen

EXPENDITURE ON SOCIAL services has gone up by 15 percentage points since 1994/95 – from 45% of government spending to 60% in 2014/15 – and today there are more people in receipt of social grants than there are people employed, according to a new report by the South African Institute of Race Relations (SAIRR). It is projected that there will be more than 17m social grant beneficiaries by 2016/17, from 13.7m in 2013.

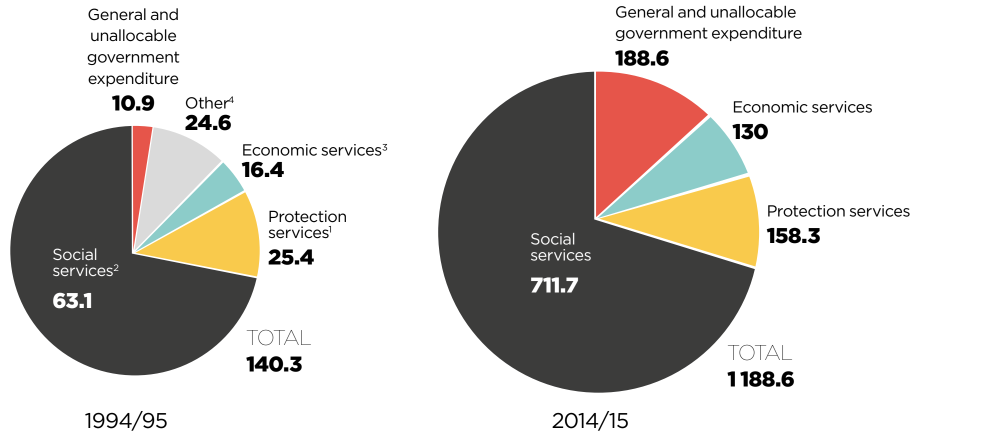
While education's share of the social services pie (which also includes health, social security, housing and community amenities and recreation and culture) has dropped from 49% in 1994/95 to 35% in 2014/15, social security spending (such as social grants) has increased from 21% to 26% and spending on housing grew from 7% to 17% over the same period. The increased spending has achieved mixed outcomes, with improvements in e.g. the proportion of the population with tertiary qualifications, but worsening household food security.

Rather than social services expenditure shrinking as our democracy matures, it seems that many South Africans still need a leg up, the SAIRR's Lerato Moloi said. A paradigm shift is needed in the government's developmental policy model, so that employment and higher growth are prioritised, she said.

HOW BIG IS THE PIE?

TWENTY-YEAR OVERVIEW OF ALL GOVERNMENT EXPENDITURE

Consolidated national and provincial government expenditure by type, 1994/95 and 2014/15 (actual numbers) Rbn.



1 Includes defence, police, prisons and courts of law
2 Includes education, health, social protection, housing and community amenities, and recreation and culture
3 Includes general economic, commercial and labour affairs; agriculture, forestry, fishing and hunting; fuel and energy; mining, manufacturing and construction; transport; communication; other industries; and economic affairs not classified elsewhere
4 Includes interest, government enterprises and other expenditure that cannot be allocated in the main budget
5 Numbers should add up vertically but may not, owing to rounding

SOURCE: National Treasury

SOCIAL SERVICES

Social services expenditure by type as a proportion of consolidated national and provincial government expenditure, 1994/95 and 2014/15

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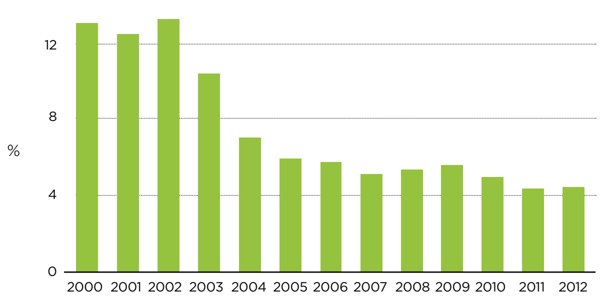
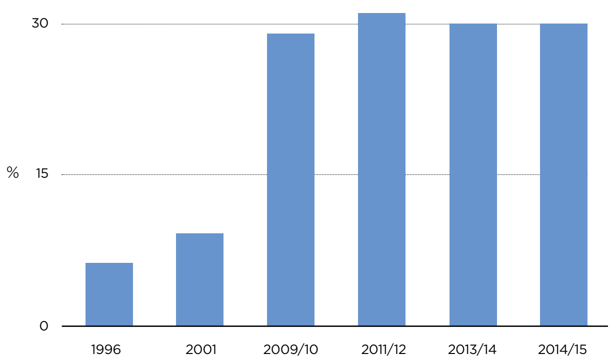
diture in SA

SEVERE MALNUTRITION* AMONG UNDER-FIVES, 2000-12

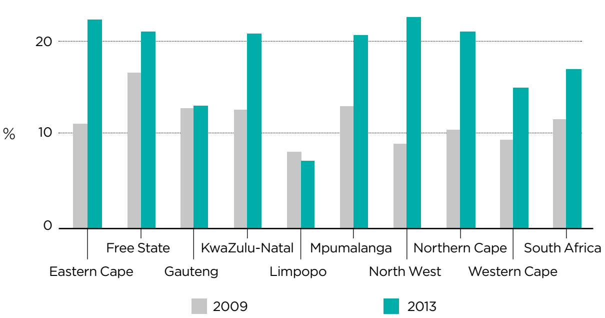


The percentage of children who weigh below 60% of expected weight for their age per 1 000 children under the age of five.

SOCIAL GRANT BENEFICIARIES AS A PROPORTION OF TOTAL NATIONAL POPULATION, 1996-2014/15



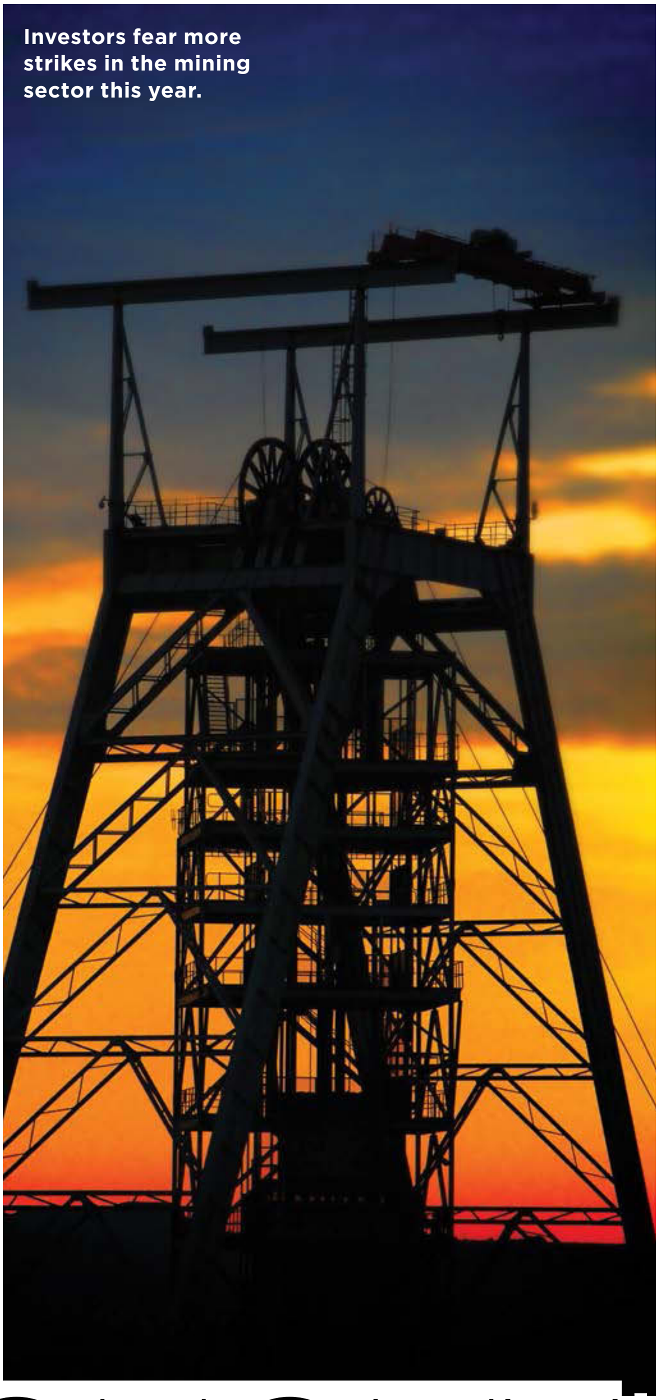
PROPORTION OF HOUSEHOLDS WITH INADEQUATE FOOD ACCESS BY PROVINCE, 2009 AND 2013



SOCIAL GRANT DEPENDENCY RATIO, 2001-2013

YEAR	EMPLOYED PEOPLE	SOCIAL GRANT BENEFICIARIES	DEPENDENCY RATIO
2001	12 494 000	3 993 133	310 to 100
2002	11 995 000	4 925 900	240 to 100
2003	11 666 000	6 494 115	180 to 100
2004	11 823 000	7 894 810	150 to 100
2005	12 503 000	10 974 076	110 to 100
2006	13 237 000	12 015 059	110 to 100
2007	13 236 000	12 423 739	110 to 100
2008	13 729 000	13 072 173	110 to 100
2009	13 369 000	14 057 365	100 to 100
2010	13 061 000	14 935 832	90 to 100
2011	13 125 000	15 595 705	80 to 100
2012	13 447 000	16 106 110	80 to 100
2013	13 721 000	15 932 473	90 to 100

The increase in electricity tariffs could push up inflation.



Investors fear more strikes in the mining sector this year.

SA ECONOMY: THE CENTRE CANNOT HOLD

BY TINA WEAVIND

Lesetja Kganyago

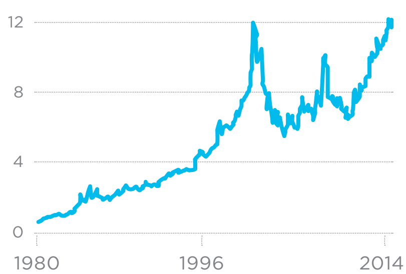
With unemployment at its highest level since 2003, economic growth at a bleak 1.9%, manufacturing output now 10% below 2008 levels, a credit rating just a notch above junk status and regular load-shedding expected to further hurt activity, there is little to cheer about in the South African economy.

And nobody believes it can get anything but worse: Two things that are set to affect South Africans on a daily basis are food price increases after the recent drought shrank agricultural output and soaring fuel prices on the back of rising oil prices. In Gauteng, e-tolls can be added to the mix.

South Africans should also brace themselves for further interest rate hikes, with Reserve Bank Governor Lesetja Kganyago warning that rates would be increased for the first time since July 2014, albeit moderately "without unduly sacrificing" economic growth. Growth has been slowing: it measured 1.9% in the first quarter of the year, compared with 4.1% in the final quarter of 2014.

The monetary policy committee's (MPC) decision not to hike rates at its 21 May meeting was not unanimous. The economic outlook was rocky enough to warrant two of the six members of the committee voting for a 25 basis-point rate hike at the body's bimonthly meeting. Inflation accelerated to 4.5% in April and is expected to peak at 6.8% in the first quarter of 2016, above the target band of 3% to 6%.

USD/ZAR EXCHANGE RATE



SOURCE: INET BFA and Investment Solutions

A 'SLOW PUNCTURE'

With growth collapsing and inflation soaring, unemployment figures are predictably depressing. Headline unemployment – people who don't have a job but are looking for work – rose to 26.4% from 24.3%, the highest level since 2003. And according to analysis by Japanese investment bank Nomura, the percentage of those no longer actively looking for work had also ticked up from to 34.9% to 36%.

Eskom is a glaring red light both to growth and the inflation rate. Wayne McCurrie, portfolio manager at Momentum Wealth, said in the light of how long it is taking to get the first unit going at Medupi, "Eskom will be trouble for the next 10 years".

The rosy glow that has shone on growth figures since the five-month long mining strike last year has also faded. Growth appeared to be soaring immediately after mining output resumed, but it was coming off a low base. According to Peter Attard Montalto, emerging markets economist at Nomura, growth is now reflecting the "fading impact of the post-mining strike recovery".

But despite the gloom, McCurrie was pragmatic. He said that, comparatively speaking, "economic growth is not an unmitigated disaster. It's not good, but we aren't in a recession. We aren't Brazil, or Zimbabwe or Russia," he said.

However, McCurrie described the economy as having a "slow puncture. The wheels are turning, but we can't go above 80." Regulatory uncertainty in issues such as empowerment legislation in mining, affirmative action, visa regulations, land reform and strikes was going to stymie growth because "no one knows what's coming next".

THE POWER DILEMMA

Kganyago said the committee's headline inflation forecast of 4.9% in 2015 assumes the electricity tariffs will

see only 12.69% increases in July this year and next year as was stipulated by the multiyear price determination process drawn up by the National Energy Regulator (Nersa).

But when Nersa decided on this long-term series of increases its members had not been apprised of the extent of the decay in the power grid. Eskom in March asked the South African Local Government Association (Salga) and Nersa to divert from the long-term plan and bump up power costs by an additional 12.6% at the beginning of next month – making the total increase 25.3%.

Kganyago said the possible increase "poses a significant upside risk [to inflation]" and predicted that it could increase average inflation "by around 0.5 percentage points over a year". Few analysts and economists believe the country will escape a rate hike next month. The committee expected inflation to move between 6.8% and 6% next year.

But it is not just what is said at

KEY ECONOMIC INDICATORS AND FORECASTS

(annual averages)

	2011	2012	2013	2014	2015	2016
Global GDP						
USA	1.7%	2.2%	1.9%	2.4%	3.2%	2.5%
Euro area	1.5%	0.1%	-0.4%	0.9%	1.5%	2.2%
Japan	-0.9%	2.1%	1.6%	-0.1%	1.4%	1.5%
China	9.2%	7.8%	7.7%	7.4%	7%	7%
SA GDP	3.6%	2.5%	1.9%	1.5%	2.1%	2.5%
SA headline CPI	5%	5.6%	5.8%	6.1%	5%	5.4%
SA current account (% of GDP)	-2.3%	-5.2%	-5.8%	-5.4%	-4%	-4%

SOURCE: Old Mutual Investment Group – May 2015

POSITIVES EVEN AS RATINGS AGENCIES DOWNGRADE SA

At the World Economic Forum (WEF) held in Cape Town earlier this month, there was no hiding the state of the South African economy. Government spin excusing the horrible figures and bleak outlook was swallowed whole by few of the jaded economists present.

Peter Attard Montalto, economist at Nomura, described the three main lines of rhetoric with regard to the country's growth as "a little irritating".

According to Montalto, cabinet ministers tended to infer that the country should be very happy with these levels "given the energy crisis is to blame"; the growth percentages were coming off a higher base than the rest of Africa; and the country was still battling with the legacy of apartheid.

The sense was that the government was happy to "sit it out" and wait for growth to resume from 2020 onwards. Montalto said Nomura didn't find this positive at all, and that the apartheid comments – which "seemed much more widespread among policy makers than ever before" – would not wash with investors.

With the right policy choices – and a reliable power supply – Nomura estimated that growth to be at 5% to 6%.

A report released at the Forum SA noted that South Africa had fallen in global competitiveness rankings because of weak education system and labour market uncertainties, according to the World Economic Forum in Cape Town.

The report compiled by the WEF in conjunction with the International Bank for Reconstruction and Development (IBRD), the African Development Bank (AfDB) and the Organisation for Economic Co-operation and Development (OECD) said Mauritius had streaked past SA as having the most competitive economy in Africa.

SA MADE IT CLEAR AT THE WEF THAT A HIGHLY **ENTREPRENEURIAL MILLENNIAL GENERATION** IS EMERGING FROM TOWNSHIPS.

the announcements; it is how it is said and the rhetoric used that gives analysts an indication of how the members really feel about the state of the economy.

George Herman, head of South African Portfolios at Citadel, said after the announcement that "the vigour of MPC statements becomes stronger at every meeting and now borders on panic". According to Herman's analysis of the rhetoric, it is as if the MPC is "pleading with government and state-owned enterprises to be sensible".

Kganyago was also concerned about the effect the exchange rate and the looming wage settlements would have on the inflation rate.

"IT'S NOT GOOD, BUT WE AREN'T IN A RECESSION. WE AREN'T BRAZIL, OR ZIMBABWE OR RUSSIA."

THE IMPACT OF WAGE NEGOTIATIONS

While wage negotiations in the public sector went relatively well according to some analysts, a difficult and protracted series of discussions are imminent in the gold sector. Last month, the state and its 1.3m employees agreed on a three-year deal in which workers would get a 7% increase backdated to April and then inflation +1% for the next two years.

Magnus Heystek, director at Brenthurst Wealth, put a different spin on the public sector agreement, saying it "will cost about R66bn per year". South Africa's entire tax base consists of around a paltry 5m taxpayers, and it is they who will pay for this increase.

A two-year wage agreement in the gold sector expires this month and strike-prone unions are demanding increases of between 84% and 100%. This comes in the face of a plummeting gold price – down 30% since 2011 to $1 204 – as well as low productivity and increasing input costs such as power and fuel.

Increasingly foreign investment has gone directly into other African countries instead of via SA as before. Judging by the tone of the country at the WEF, this situation doesn't look set to change any time soon: according to Montalto, while South Africa bemoans its past and a sense of indolence prevails "other countries are aggressively selling growth stories and narratives of policy choice to support growth".

Ratings agency Standard & Poor's last week kept SA's investment-grade rating intact at BBB-, just one notch above junk. Standard & Poor's last year dropped the country's ratings, and it still gives the country a lower rating than Fitch Ratings and Moody's Investors Service.

The agency said it expected real GDP growth in SA to be limited to 2.1% this year, owing largely to electricity supply shortages.

The future isn't entirely bleak though. SA made it clear at the WEF that a highly entrepreneurial millennial generation is emerging from townships. Small and medium-sized businesses were steadily emerging, although Nomura noted that they were being at least partially stymied by the current business and labour regulations.

Standard & Poor's anticipated a slight improvement in GDP growth from 2015-18. The agency referred to the country's deep financial markets, and assumptions that broad political and institutional stability would remain in place, as would economic policy. Fairly strong and transparent institutions would also be sustained.

Fitch didn't gush about SA's prospects either, maintaining a negative outlook at BBB for foreign currency loans and BBB+ for local currency bonds. The rating agency said its decision was based on the weak economic growth potential because of power-supply constraints and external financing vulnerabilities.

In its response, Treasury said these issues were getting "government's attention at the highest level". Plans to implement government's package to support Eskom was progressing and plans to allocate R23bn into the company and convert a R60bn loan into equity are firmly on track.

The National Development Plan, aimed at stimulating growth, also remained a key objective. With regard to the fiscal position, government will broadly stick to its expenditure ceiling budget deficit plans set out in the February 2015 Budget. ■

INCREASED PRESSURE ON THE MIDDLE CLASS

The rand's weakness against the dollar is set to increase as the US Federal Reserve looks likely to hike interest rates in September after it normalises its monetary policy. This will pull money out of emerging markets, including SA, and will hit foreign investment and equities.

According to Heystek, the net effect of the perilous state of the economy is an "immense crush[ing] of [the] middle class". He said this week car sales and sizes are shrinking as are home sales and sizes. While the tax base is around 5m people, around 10m people have an impaired credit record. As credit is now harder to get, people are going to "shadow lenders" or loan sharks. "The centre cannot hold," he said.

McCurrie's assessment of the situation was that "if you have a job, you will be okay". However, tax hikes are on the way and wage increases are almost certainly going to be below inflation. The economy will stagnate for at least three years. ■

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Anglo's Cutifani intent on **cost-cutting** spree

BY DAVID MCKAY

One of the first steps taken by Mark Cutifani on joining Anglo American as its CEO in 2012 was to sell the group's fancy $64m corporate jet – a trademark Cutifani move, as it focused attention to the kind of strategy he wanted to run at the company.

Two years down the line, and with Anglo's share price still underperforming its peers BHP Billiton, Rio Tinto and Glencore, Cutifani has embarked on a new wave of cost-cutting with the group's offices, described by UK newspaper *The Sunday Times* as "sumptuous", earmarked for rationalisation.

Actually, what's intended according to the paper is for Anglo to prematurely end the lease on its St James premises – 20 Carlton House Terrace – a property near Buckingham Palace designed by Regency architect John Nash. The lease for the offices runs until 2020.

There is no planned return of Anglo's head office to South Africa, however – a development that would no doubt delight government, which has been critical of its wantaway firms (Anglo was founded in SA with UK and US money 98 years ago). This is notwithstanding the fact that Cutifani has had himself elected to the chairmanship of Anglo American South Africa.

"It is clear that Anglo is pursuing all options to cut costs," said Investec Securities, while a source told *The Sunday Times*: "The message is that the civil service-style days of Anglo are over."

Relocating the UK head office is but the tip of the iceberg for the cost-cutting at Anglo.

Should Anglo American divest of its non-core Rustenburg platinum mines, as planned, and dispense with many of its Eskom-dedicated coal mines, as stated by Cutifani, the group's SA corporate costs will also have to be cut back as it will have hundreds of people employed for only about nine mines in the country.

Said Cutifani in a recent interview with Miningmx: "We are rebuilding our business and its competitive position. Our tough reality is SA has a very high inflation and so to compete we have to continue to reduce our overheads and other costs.

"Yes, as we do reshape the portfolio, there will be implications for the support structures required to support those mining operations, so an element of 'right-sizing' will be required," he said. "Of course, any changes to the shape of the organisation will be undertaken in full consultation with all relevant stakeholders."

"OUR TOUGH REALITY IS SA HAS A VERY **HIGH INFLATION** AND SO TO COMPETE WE HAVE TO CONTINUE TO REDUCE OUR OVERHEADS AND OTHERS COSTS."

Mark Cutifani

The ability of Cutifani to take costs out of the system at Anglo is becoming more crucial than ever because net debt is challengingly high at $13bn. The sale of the group's 50% stake in industrial firm Lafarge Tarmac is intended to take some pressure off the debt pile, but it looks increasingly likely that it won't be able to divest of 100% of its Rustenburg mines and that a listing for the mines is being prepared.

But a listing is somewhat problematic because Anglo will have to retain a stake in the company, exposing itself to potential short-term losses, while it's also possible government could request the entity be debt-free as it did when AngloGold Ashanti attempted to demerge local mines into a separate company. "This would require Amplats retaining significant debt, another headwind for the stock," said Goldman Sachs in a report.

Cutifani said: "We're still in our dual track process of evaluating the best way forward for Rustenburg and Union. There's a lot of work we have put in to restructure these mines into a sustainable standalone business – profitable and cash-generative.

"We've received expressions of interest and as I said earlier we're only interested in selling for value. We are still evaluating which route to take and will make an announcement by mid-year." ■

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Cutifani was speaking to Miningmx in an interview that will appear in The Mining Yearbook *in* Finweek*'s 2 July edition.*

AngloGold Ashanti's Mponeng mine south-west of Johannesburg

anglogoldashanti.com

AngloGold now in better position

BY DAVID MCKAY

It may have been a slip of the tongue, but AngloGold Ashanti CEO, Srinivasan Venkatakrishnan, dismissed raising funds through shares as "a dumb idea", even though that's exactly what was required of Newmont Mining in its $820m (R10.2bn) capture of AngloGold's US mine.

The market agreed with Venkatakrishnan by penalising Newmont shares roughly 10% in the first two days after the 9 June transaction.

Venkatakrishnan can call on his own experience of trying to tap shareholders for funds in the current downturn, when AngloGold shares fell 12% as investors recoiled at a $2.1bn (R26bn) rights offer intended to clear out debt.

Long-term investors don't favour the idea of being made to pay for past balance sheet excesses, nor of being diluted while the share price is under pressure. The only alternative for AngloGold and Venkatakrishnan was the sale of assets, hence the divestment from Cripple Creek & Victor (CC&V) to Newmont – cutting the firm's debt by a third to about $2bn, removing the need for further asset sales.

Analysts liked the transaction. Leon Esterhuizen, precious metals analyst for CIBC Markets, called it a "coup" while Andrew Byrne, analyst for Barclays, said AngloGold's 33% discount to its peer group was now unjustified. He saw a 46% upside to the share price.

"We view the announcement as positive and a significant step in the right direction to de-leveraging the company's balance sheet," said James Oberholzer, analyst for Macquarie Research in Johannesburg.

So with analysts agreeing that selling CC&V makes good sense, Venkatakrishnan can confidently look to closing out debt, starting with the $1.25bn (R15.5bn) bond that carries an expensive 8% coupon rate.

Pressure off the balance sheet also loosens the shirt collar in respect of approaching wage talks with South African unions. One of the potentially negative consequences of selling the US mine – equal to 5% of AngloGold's total production – is that it increases the firm's overall exposure to SA's flammable labour relations.

Wage talks may well be a difficult affair with both the National Union of Mineworkers (NUM) and the Association of Mineworkers and Construction Union (Amcu) demanding an increase of between 80% and 150% for entry-level workers.

However, according to Goldman Sachs, AngloGold still has far less exposure to SA (20% of total production) than either Harmony (90%) or Sibanye Gold (100%) and is therefore the bank's preferred stock through the wage talks.

"We believe the recent underperformance [of AngloGold] versus global gold peers is due to anticipation of increased costs following wage negotiations," it said. "However, as AngloGold has less than 20% exposure to SA, we believe this underperformance is unwarranted."

Of Harmony and Sibanye, however, there was less sanguinity.

Even a 10% increase in the wage bill would see Harmony Gold's pretax earnings fall by 19%, while the overall health of SA's gold industry would be in question since roughly 40% of all operating gold mines were losing money.

"We believe that in an environment of declining gold prices, substantial increases in labour costs may result in further deterioration in the profitability of SA gold mining and impact its long-term scope and sustainability," said Goldman Sachs. It also observed that the industry's average operating profit margin in 2014 was 25% versus 45% for gold miners in other countries.

Set against this is a current of disbelief among government and unions, which have warned mining companies that they will not accept retrenchments as a direct consequence of higher wages.

"There was a threat a few years ago in the platinum sector that some 10 000 jobs would be lost and that hasn't happened because of government intervention," said Advocate Mahlodi Muofhe, spokesperson for the department of mineral resources. ■

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Myriad hurdles diminish **junior miners'** chances

BY DAVID MCKAY

Owing to the highly speculative and risky nature of the search for tomorrow's minerals, investing in South Africa's junior mining sector is best left to the professionals. There's a number of reasons for that.

Mineral exploration is never quick or easy; it is riddled with unknowns, and the companies that are involved in it are always a bad winter away from insolvency. Even companies with good projects can end up victim to a bad market such as now when the world is long on metals, and demand and capital have fallen badly away.

And if any further evidence is required, not even the professionals fancy South African exploration shares much. According to Peter Major, a mining policy consultant for Cadiz Corporate Solutions, exploration companies aren't to be trusted in the main.

He responded to a question at the recent Junior Indaba conference in Johannesburg as to why start-up exploration firms always did so badly by making the facetious remark: "Juniors haven't failed. Juniors milk the suckers."

The evidence in terms of JSE performance is not overwhelming either.

A quick scan of the JSE stocks pages shows that in the current market, a slew of exploration and development firms have required urgent recapitalisation: Coal of Africa, Waterberg Coal Company, Miranda Minerals, all in coal. Others, such as Tawana Resources and Bauba Exploration, had changed management or focus, or both.

So why bother?

Well, when exploration companies do find something, in the right market, the returns can be stratospheric.

Eland Platinum sold its prospect to Xstrata for $1bn. Australian-listed Riversdale sold its coking coal prospect to Rio Tinto and Indian conglomerate Tata for $4bn, while the world's best-known mining entrepreneur, Robert Friedland, discovered the Voisey's Bay nickel deposit in Canada and sold it to Inco for $3.1bn.

There are also good reasons why an economy needs junior mining, especially in SA where there's a strong history of mineral activity and a need for job creation.

According to industry commentators, however, there are too many historical, regulatory and industry obstacles preventing the take-off of junior exploration firms.

SA's history of conglomeration – Anglo American and Gencor for instance – means investors don't really have much of a track record with exploration firms; they're more familiar with strongly capitalised big players that either conduct their own exploration, or buy up juniors with good prospects.

Paul Miller, a resources banker at Nedbank Capital, says it's also worth noting that more exploration companies sit outside the Chamber of Mines than within it, while the South African Mining Development Association (SAMDA), an organisation established specifically for junior mining, has fallen into disrepair.

Worst, though, are the regulatory headwinds. According to Otsile Matlou, a director at law firm ENSafrica, the current regulatory framework has been designed for existing mining companies, not for mines that will exist in the future.

"Exploration companies have to deal with 203 different statutes which, for them, is like starting at technical non-compliance even before you start," said Matlou. "There would be benefit from the development of bespoke rules that only speaks to that industry."

Regulatory uncertainty with empowerment rules in SA isn't helping. "The risk profile of SA has increased because of everything that has happened," said Sacha Beukes, a senior investment officer at the IFC, the finance arm of the World Bank.

Perhaps the most damning of all statements was uttered by Miller, who commented on the sinister side of government relations. "You have to take your battery out your cellphone because they're suspicious you might record meetings with your own company."

"You have to meet people in hotels in Midrand to resolve prospecting right disputes. You have to go to Middelburg to speak to people in coffee shops because there's a back door to the department," he added. ■

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Agoa renewal: Local poultry industry loses out

BY TINA WEAVIND

Thousands of jobs and around R900m in revenue in the poultry industry have been put on the line so that South Africa can remain a beneficiary of America's African Growth and Opportunity Act (Agoa).

The 15-year-old trade agreement allows 39 sub-Saharan countries to export – duty-free – more than 7 000 products to the world's biggest economy. It's non-reciprocal too, so the beneficiary countries are under no obligation to provide duty- or quota-free access to their own domestic markets for US goods.

South African exports account for 70% of Agoa's (non-fuel) products. Agoa's benefit to SA last year clocked in at \$3.5bn (R43.5bn) in foreign exchange earnings. Indirectly through job creation and numerous downstream businesses, the agreement is worth billions more.

Industries such as citrus fruit, wine and, importantly, vehicle manufacturing are at least partially powered by the largesse of the US's trade policy.

But from next year, at least 65 000 tons of US chicken pieces will be sold in local supermarkets. The bone-in brown meat pieces – primarily leg and thigh – are expected to undercut local prices and scythe the profits of producers.

Last month, JSE-listed Astral Foods, which bases its business primarily on chicken, warned the imports were likely to negatively impact local farmers. But having bargained the US down from its initial quota demand of 110 tons a year to 65 tons a year, the company said the deal, which was integral to the extension of the Agoa agreement, was acceptable.

Since 1999, SA has had in place an antidumping duty of R9.40/kg on chicken coming in from the US. This is in addition to the 37% tax on all chicken imports, most of which come from the EU. America has demanded that this antidumping duty be pulled and that the country be allowed to compete on the same basis as other importers.

SWAZILAND FEELS THE PINCH AS AGOA IS NO MORE

Tens of thousands of job losses in Swaziland are a taste of what it could be like for SA to lose Agoa. The government of Swaziland, with a population of just over 1m people, didn't implement a number of US demands on workers' rights and was excluded from Agoa last year. The textile industry, which was built largely on the back of the Agoa agreement, has been hardest hit.

This week, a subcontractor to a textile producer, who asked not to be named, said she had cut almost 10% of her workforce as US demand fell for Swazi textiles.

Jim Wang, an administrator at Tex Ray, a Taiwan-based textile and garment factory operating in Swaziland, said earlier this year that his company had retrenched 1 500 people from factories that were operating solely to supply the US market. He said some of these workers had been lucky enough to find jobs elsewhere, but others had returned to "do agriculture at home", in other words subsistence farming. He said the company was currently trying to increase its sales into the much smaller South African market – also a duty-free zone – but "at the moment we can't increase enough to recover".

Billionaire Natie Kirsh has been lobbying hard to get the US to reinstate Agoa in Swaziland. Kirsh, 82, whose fortune far exceeds that of the controversial King Mswati III, kicked off his astounding career in property and retail in Swaziland. He has a deep attachment to the country and a great deal of influence around the world. However despite his efforts, the US has thus far stood firm.

Gallo Images/iStock

Threatening the loss of Agoa unless the antidumping duties on chicken were dropped was driven by two senators with major interests in accessing Africa's biggest – and growing – chicken consumer market.

Delaware's Democratic senator, Chris Coons, and Georgia Republican Johnny Isakson both represent states with vast poultry industries. They described as iniquitous SA's continued benefit of America's largesse while imposing almost 100% duties on US-bred chicken.

"I believe it unfair and inappropriate that the country that benefits from the law the most – South Africa – continues to maintain unreasonable tariffs on American poultry," Isakson said before the deal was struck.

ASTRAL FOODS WARNED IN MAY THAT IF A QUOTA ON US POULTRY IMPORTS WAS AGREED ON THE BACK OF THE AGOA RENEWAL, IT WAS LIKELY TO **NEGATIVELY IMPACT** LOCAL PRODUCERS.

The Paris agreement doesn't ensure that SA's preferential export status will be extended though, but it's "an important step forward", according to the USA's minister counselor for economic affairs, Laird Treiber.

He said that health certification requirements still needed to be finalised for the import of beef and pork as well as poultry, but that this was due to be tied up by the end of June. He said the blistering pace of the decision-making indicated just how seriously the two governments viewed the extension of the agreement.

While the rationale for the sacrifice is not in doubt, the South African Poultry Association (Sapa) is less than charmed. Sapa CEO Kevin Lovell said that while the agreement had brought vital certainty to the industry, enabling producers and buyers to plan ahead, it was potentially destructive to the poultry industry.

Lovell said the eligibility of US chicken in SA would be similar to a "grey import" – a product brought into the country without the proper import duties being paid. There's "no difference" to typical grey imports like microwaves and hi-fi equipment, he said: Consumers pay a "lower price for the same goods".

Not so, said Treiber. Far from destroying jobs and turnover, the imports would "grow the market". By allowing more choice and lower prices, new consumers would be attracted and consumption would increase.

At an estimated 36.4kg per capita consumed in 2013, according to Sapa data, SA is Africa's top chicken consumer and number four in the world, making it a lucrative target for global producers.

Speaking from the US embassy in Pretoria, Treiber this week highlighted SA's growing demand for chicken. "South Africa has moved from being in the top 20 to the top 10 global consumer of the meat, and is the ninth-biggest importer in the world."

Poultry industry leader Astral Foods warned in May that if a quota on US poultry imports was agreed on the back

of the Agoa renewal, it was likely to negatively impact local producers.

Daan Ferreira, CFO of Astral foods, said this week the company was still unsure of what the outcome of the deal would be. He said the soaring price of chicken feed, driven up by maize price increases over the past 18 months, had seen smaller farmers unable to compete and about 1m birds a week being pulled out of the market. The US imports would refill the gaps, but at the same time "this means the small guys won't be able to come back".

Astral Foods fell 4.05% to R172.44 on the news of the new chicken import legislation and Quantum Foods Holdings fell 3.3% to R3.52. However Ferreira said he doubted the drop was linked to the deal, especially as RCL Foods, formerly Rainbow Chicken, rose 1.49% to R17.76.

One of the options SA put to the US was to import whole chickens – which are more expensive by weight than bone-in brown meat. This would have meant local meat would be sold close to equal in price to the imported birds. However, this was wholly rejected by the US since it would cut into profits of the US poultry producers. "They don't want to deal fairly," said Lovell. As far as they are concerned "it's a terrible idea".

The imports are due to begin in around six to eight months, but vital decisions still need to be made. David Wolpert, CEO of the Association of Meat Importers and Exporters of South Africa, said no indication had been made on who would qualify to be an importer and on what basis. Also, the import quotas of 65 000 tons per annum would be increased annually, but no decisions had been made about how this increase would be calculated. ■

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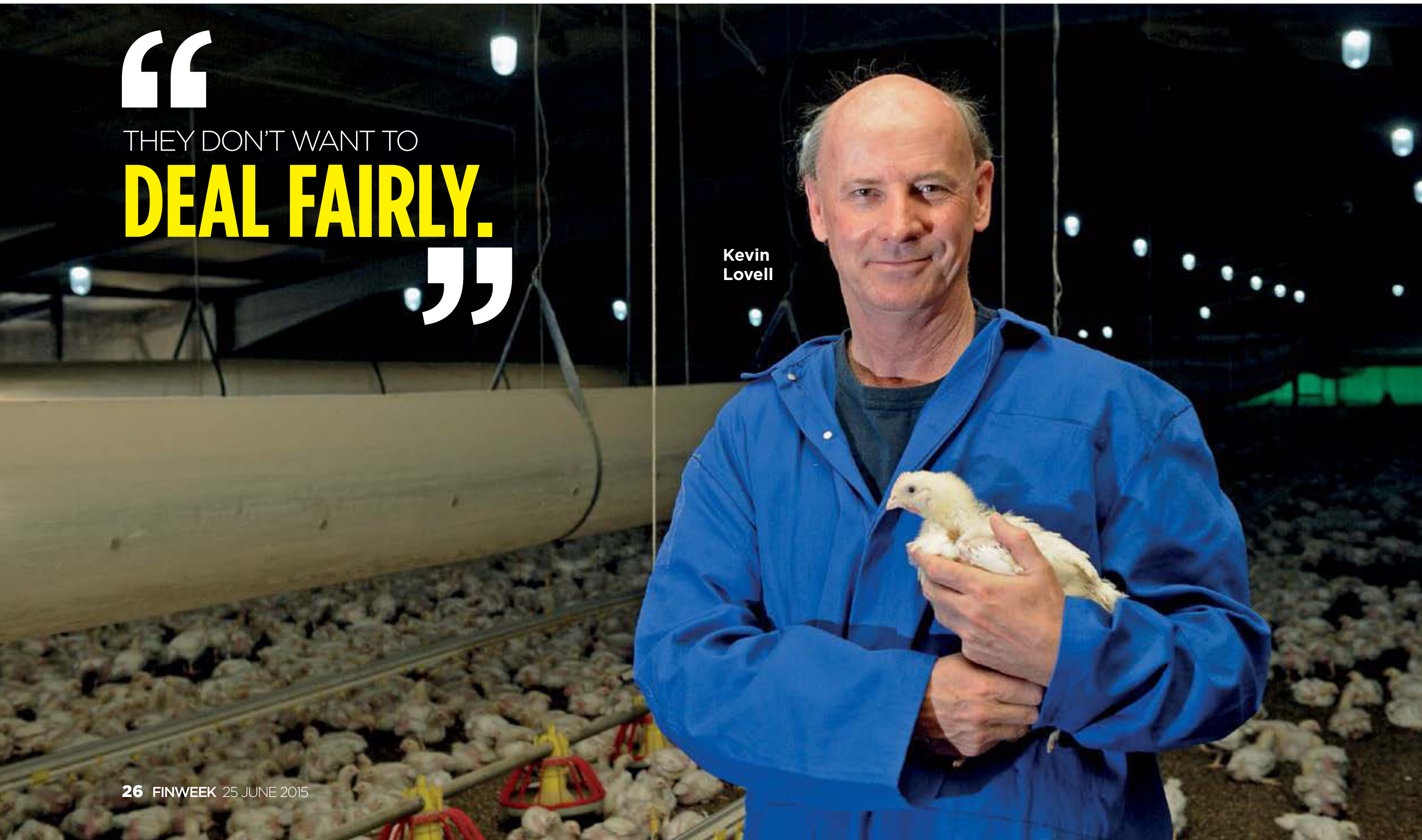
US-SOUTH AFRICA TRADE
('000 US DOLLARS)

	2012	2013	2014
US exports	7 078 557	6 699 656	5 560 413
US imports	8 695 457	8 392 134	8 269 567
AGOA (including GSP* provisions) imports	3 677 563	3 668 361	3 103 881
GSP* imports	1 294 211	1 089 865	1 356 248
AGOA imports	2 383 352	2 578 496	1 747 633

***GSP =** Generalised System of Preferences. Indicates trade under preferential terms

SOURCE: agoa.info



"THEY DON'T WANT TO **DEAL FAIRLY.**"

Kevin Lovell

IN THE NEWS

Rebuilding **Liberia**

BY LAMEEZ OMARJEE

Despite the past challenges facing the war-torn state, the impact of lower commodity prices and the loss of development gains by the deadly Ebola outbreak, President Ellen Johnson Sirleaf describes Liberia as a well-endowed country.

Speaking at the Johannesburg Chamber of Commerce and Industry on 11 June, Sirleaf, who became the first female democratically elected head of state on the continent in 2006, promoted Liberia's natural resources as investment opportunities. The mining, agriculture, forestry and marine sectors all have potential for growth, she says. "We've been trying to build on the strength of our natural resources… and that endowment is still there."

Liberia's geography supports its attractiveness for investment. The flow of goods across international markets is made easy via seaports along its 579km shoreline, explains George Wisner, executive director of the National Investment Commission (NIC). Opportunities to develop infrastructure of airport facilities gives Liberia a comparative advantage over neighbouring countries as it is in close proximity to Latin and North America, and Europe and the Middle East, says Wisner.

The long-term Vision 2030 plan for transformation will see Liberia become a middle-income country. This would include addressing its long-standing infrastructural problems, says Sirleaf. In the past, the country did not have the diversity to withstand economic shocks and the largest constraint to achieving diversity has been the lack of infrastructural development, she says. One of the issues that will be addressed within the next 18 to 22 months is the need for energy resources including renewable energy such as solar and hydroelectricity.

"We believe that we are now on the road to recovery and we can use the experience of the past to achieve the diversity and transformation goals," says Sirleaf. Through the effective use of

Gallo Images/Thinkstock

A woman stands in front of her market stall selling various grains in the Liberian capital Monrovia.

THE IMPACT OF **EBOLA**

Liberia, which was declared Ebola-free in May, is still counting the economic cost of the outbreak, which slowed investment and cut economic growth. The outbreak, the largest in history, killed more than 11 000 people in West Africa since it started in February last year. New cases continue to be reported in neighbouring Sierra Leone and Guinea.

"The children were not in school, we almost lost an entire year because of Ebola," says Konneh. Economic growth for 2014 is estimated at 0.7%, down from 8.9% in 2013, according to the International Monetary Fund (IMF). Estimated GDP losses in 2015 are $240m (R3bn) for Liberia, a major impact if considered that GDP in 2013 was estimated at just under $2bn (R24.9bn).

In addition, the steep decline in iron ore prices curtailed planned investment in the mining sector, the IMF said. Other industries, such as the services and agricultural sectors, also declined. "Restaurants were virtually empty," says Konneh.

However, the disease brought together members of parliament, the private sector and civil society to work on a solution, says Konneh. The economy is expected to grow 3% this year, according to the latest World Bank estimates. Besides relying on external support, such as debt relief and trade facilitation from the World Bank, the rebuilding of Liberia starts from within, he says.

The Ebola outbreak served as a reminder for the continuous investment in institutions for human development such as education, health and social protection, says Konneh.

Since its eradication, the country has started to re-engage the investor community and investors' confidence is picking up again, says Wisner.

"When there is a common threat, a nation puts aside all of its differences – political, religion, ideological – and can come and confront that threat and win," says Sirleaf. The silver lining in the situation is that the international community recognises the importance of forming partnerships to prevent any global catastrophe, she says.

Of her legacy, Sirleaf says: "I met a ravished country and we kept it peaceful and had it develop and we left it better than we found it."

resources and partnerships for financing, the country can address poverty and ensure sustainable economic growth, she adds.

If investors take advantage of the "huge potential" that exists in Liberia, it will benefit job creation, says the country's finance minister Amara Konneh.

Liberia has incentivised investors by making the environment conducive for business, he says. The efficiency of the environment ensures that it takes 10 days to register a business, he explains. "We also have an attractive percentage in our revenue growth for investors," he adds. The NIC allows easy repatriation of profit, making it easy for investment to grow, says Wisner. "Investors find it easy to invest and find it easy to get profits.

"The biggest guarantee we have is the stability in the country, which we have demonstrated in the past two election cycles. Our country is on an irreversible path to sustain growth and development," says Konneh.

It will be ideal if investors "set up shop" in Liberia, adds Konneh. "We want to make our economy a three-ship economy. Right now we are only one ship."

Liberia's major trade partners are Europe and China. There is a trade deficit between Liberia and South Africa. Past efforts to establish trade partnerships between the two countries failed, but there are still hopes to establish business partnerships with South African entities, says Sirleaf. MTN is the best-known local company with operations in Liberia. ■

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SNAPSHOT

POPULATION: 4.3M

GDP PER CAPITA: $454.34 (2013)

LIFE EXPECTANCY: 60.2 YEARS

% OF POPULATION IN POVERTY: 63.8%

ECONOMIC GROWTH: 3% (ESTIMATED FOR 2015)

WORLD BANK'S EASE OF DOING BUSINESS RANKING: 174TH OUT OF 189 COUNTRIES

KEY ECONOMIC SECTORS: FORESTRY, MINING (IRON ORE AND DIAMONDS), AGRICULTURE

'The Cape is proudly African'

BY LIESL PEYPER

Intracontinental trade received a major boost on 10 June when 26 African leaders signed a comprehensive free-trade agreement connecting three existing trade blocs to form the Tripartite Free Trade Area (TFTA), which will stretch from Cairo to Cape Town.

The deal, which has the potential to integrate the continent like never before, also comes at a time when the Western Cape is repositioning itself as the preferred headquarter for existing and prospective investors into Africa.

If there's one thing he wants to achieve during his tenure as chief executive of Wesgro, the Western Cape's official trade and investment promotion agency, it is to change the view that Cape Town is not part of Africa, says Tim Harris, who was appointed to the position three months ago.

"There's no isolationist strategy when it comes to the province," he says. "On the contrary, the only way we can really sell an economic future for the Western Cape is through being incredibly integrated with the rest of the country and – as importantly – the rest of the continent."

In a way, Harris says, the Western Cape and Cape Town are already achieving this. The annual Mining Indaba is a case in point.

"The fact that we're hosting one of the biggest global mining conferences in Cape Town – a region where very little mining activity is taking place – shows that companies around the world are coming to Cape Town to think about their Africa mining strategies. The more we can replicate that, the brighter our future will be."

> "THERE'S NO ISOLATIONIST STRATEGY WHEN IT COMES TO THE PROVINCE."

IN SYMBIOSIS WITH SA

Harris's counter-isolationist strategy for the Western Cape also shines through in his plans for the relationship he would like to foster with the department of trade and industry (dti).

"When we're offering a package to South African investors, a substantial part of the incentives come from the dti," says Harris. "The dti's incentives impact the bottom line of investments, so the Western Cape's relationship with dti is very important and I intend to strengthen that relationship."

The Western Cape, in turn, is bringing an important element to the table in the form of R7bn worth of foreign direct investment (FDI). "And it's not only tourism, wine and asset management," says Harris, a former DA shadow minister of finance. "It's actually incredibly diversified."

The Cape Peninsula boasts a number of heavy industrial manufacturing facilities, such as in Atlantis where engine blocks for Mercedes-Benz are built and where Hisense puts together TVs and fridges for export to the rest of Africa, while Kimberly-Clark, which manufactures fast-moving consumer goods, is based in Epping.

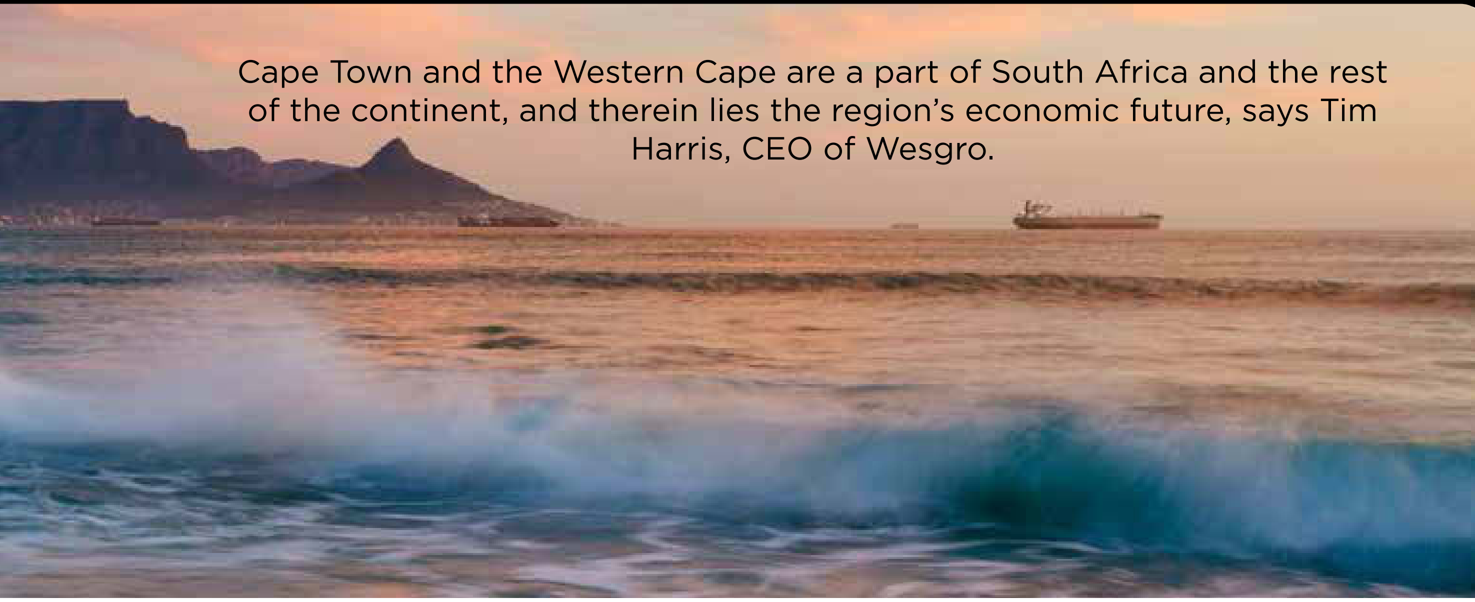
"These industries show the Western Cape is not only about the service industry – it's also possible to run heavy and light manufacturing operations."

UNCERTAINTIES

Selling Cape Town and the Western Cape sometimes has its difficulties too. "We recognise decisions are sometimes made at a national level that don't make it easy to sell our region," says Harris.

South Africa's decision to cancel bilateral investment treaties (BITs) with the EU and the release of the draft Promotion and Protection of Investment Bill in its place are cause for concern among investors.

The cancellation of the BITs, says Harris, was "unfortunate timing". "Internationally there's a move away



Cape Town and the Western Cape are a part of South Africa and the rest of the continent, and therein lies the region's economic future, says Tim Harris, CEO of Wesgro.

Gallo Images/Getty Images/Hougaard Malan Photography

from ad hoc bilateral treaties towards an overarching treaties framework. But the problem is we scrapped the BITs before we've had the overarching investment framework in place and that creates a lot of uncertainty."

The Investment Bill, which was gazetted by the dti in November last year for public comment, has elicited considerable criticism in the business community for the way in which it proposes government should screen investments and deal with expropriation.

"Investment decisions are made mainly on the basis of certainty," says Harris. "I hope we can reach a solution soon. The problem is if you have uncertainty in combination with statements about private security regulations and foreign ownership of land, we're not doing ourselves any favours."

THE ANGOLA LESSON

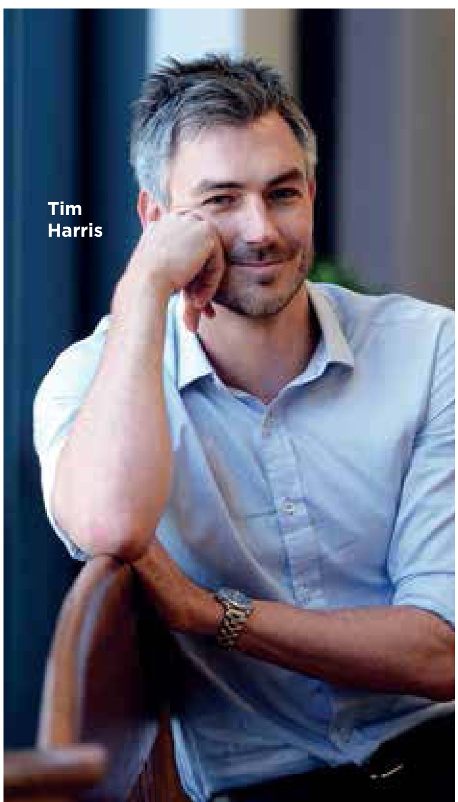
The Western Cape is not immune to the economic realities the rest of SA faces, but the province certainly performs better in all of the major metrics, says Harris.

According to the latest quarterly labour force survey, the Western Cape has the lowest expanded unemployment rate at 24.5%, followed by Gauteng at 29.6%. "Unemployment is still high, but it is the lowest of all the provinces," says Harris.

The Western Cape's GDP growth at 2.3% last year, was also higher than the national average of 1.5%.

"But despite this, there are still huge challenges," says Harris. "I have to stress: we cannot make an incredible economic offer without positioning ourselves as part of South Africa and Africa. Our future is as an African city."

Wesgro has established a unit dedicated to increase Cape Town's connectivity to the rest of Africa and to build on those links that are there like the three direct flights between Cape Town and the Angolan capital Luanda.



Tim Harris

This came about thanks to the collaboration between a team comprising the City of Cape Town, the Western Cape and the Airports Company of South Africa (Acsa). "Three spheres of government worked together to achieve this and that's incredibly encouraging."

EMBRACING COMPETITION

As for the future, he hopes to see more healthy competition among the various provinces in SA, says Harris. "I'm extremely motivated by the competition the Western Cape gets from KwaZulu-Natal and Gauteng, but that is often misrepresented. In South Africa we don't embrace internal competition strongly enough. It makes us all better and if you marry it with increased collaboration, you have a very powerful combination."

The strong competition among the various jurisdictions in the US is a model to strive towards, he says.

"All the different states are in fierce competition with one another. Yet no one doubts that Americans are incredibly patriotic and proud to be US citizens. We need to promote the same attitude in South Africa and I hope the Western Cape can serve as an example to the other provinces." ■

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Going **legal**

BY CIARAN RYAN

LEGAL SERVICES IS ONE SECTOR OF THE ECONOMY THAT IS BOOMING. THE BIG 6 LEGAL FIRMS ARE ROLLING OUT NEW OFFICES AND ALLIANCES ACROSS AFRICA WHILE BEEFING UP THEIR TEAMS IN SOUTH AFRICA. DRIVING THIS GROWTH IS AN INCREASINGLY COMPLEX REGULATORY ENVIRONMENT, BOTH AT HOME AND ABROAD.

An architectural impression of the Werksmans building

It's a sign of the times that legal services firms are booming while the rest of the economy limps along.

Werksmans recently announced it would relocate its Johannesburg head office to the new Central development opposite the Gautrain station in Sandton, where it will be the anchor tenant, occupying 12 500m² of space.

ENSafrica (Edward Nathan Sonnenbergs) recently took up more space in its Cape Town and Durban offices and is looking to acquire bigger offices in Johannesburg. It currently has 14 offices in seven countries across Africa.

Bowman Gilfillan Africa Group has grown its number of attorneys by 15% to 476 and doubled the size of its Kenya office in the past two years. Over the same period it added three new offices – in Durban, Botswana and Madagascar – bringing its total office count in Africa to eight.

Webber Wentzel in Johannesburg currently occupies three buildings in Illovo, but plans to consolidate all its staff in one building now under development at 90 Rivonia Road in Sandton.

EXCITING DEVELOPMENTS NORTH OF THE BORDER

All of the Big 6 legal firms report substantial growth in the last two years. The biggest growth appears to be in Africa, reflecting the migration of SA companies north of the Limpopo in search of new markets.

If SA has become a regulatory minefield, the rest of Africa is no different. While South African companies have to negotiate stiffer mining and affirmative action regulations at home, other countries in Africa have adopted similar laws of their own under the rubric of "resource nationalism" and "indigenisation".

Marilise van der Westhuizen

THE REAL GROWTH OPPORTUNITY GOING FORWARD IS IN SUB-SAHARAN AFRICA, WHICH – LIKE SA – IS BESET WITH INCREASINGLY COMPLEX COMMERCIAL AND LEGAL OBSTACLES.

Webber Wentzel has teamed up with global law firm Linklaters to pave the way for its expansion across the continent. Christo Els, senior partner at Webber Wentzel, says the real growth opportunity going forward is in sub-Saharan Africa, which – like SA – is beset with increasingly complex commercial and legal obstacles.

It is no longer sufficient to offer clients vanilla legal advice. Most of the big groups have added non-legal services such as risk management, forensic investigations, accounting and other disciplines, blurring the lines between traditional accounting and legal services firms. In the era of globalisation, a vaguely worded contract or a miscalculation on pricing can be catastrophic. No South African company would venture into Central or West Africa without an ace legal expert at its side. The risks are simply too great.

Norton Rose Fulbright's head of the regulatory and investigations practice, Marelise van der Westhuizen says the intensified regulatory regime in SA's stringent and complex regulatory environment is at the forefront of the issues facing businesses today. "South Africa's regulatory environment is the most complex and stringent on the African continent and corporate compliance has become particularly important as South Africa adapts its legislative regime to meet external and internal economic forces."

WHAT SECTORS ARE DRIVING THE DEMAND FOR LEGAL SERVICES?

Energy and infrastructure, financial services, private equity, retail, transport and technology, media and telecommunications sectors, says Els. "We are seeing an increase in demand for specialist project finance services in both South Africa and sub-Saharan Africa. The demand for legal services, particularly in South Africa, is also driven by the increased complexity of the legal environment, for example increased regulation in areas like broad-based black economic empowerment, competition and tax."

Norton Rose Fulbright recently expanded its footprint in Africa by forming strategic alliances with leading law firms in Uganda and Zimbabwe, giving it extensive coverage of southern and Central Africa.

Regulation and red tape are the primary obstacles facing global businesses, according to recent research by Acritas, an international legal market research firm. This motivated Norton Rose Fulbright to launch a specialised global regulation and investigations practice, with the aim of assisting clients to overcome regulatory hurdles.

The firm with the widest representation is ENSafrica, with seven offices in SA and a total of 14 offices in seven countries.

Says ENSafrica spokesperson Kim Hawkey: "Our main growth areas in terms of practitioners over the past two years have largely been in our new offices –we have offices in Burundi, Mauritius, Namibia, Rwanda, South Africa, Tanzania and Uganda – as well as in the practice areas of construction, employment, the China practice group and private clients."

A THRIVING CONTINENT OFFERS OPPORTUNITIES

Building a pan-African network of offices doesn't come cheap, but is essential in the race to stay ahead of the game. Those law firms that choose to focus on the SA market are likely to lose clients that are looking beyond SA's borders for opportunities. Hence all the Big 6 law firms have established alliances or opened offices in other jurisdictions where they can offer their clients a level of local legal intelligence that would not be possible from Johannesburg.

"African states run on a timeframe and language of their own, quite unlike most other countries, and it is almost impossible to enter as an outsider and immediately know where to go, what to do and, even more importantly, how it is done," says Collins.

The scramble for opportunities in Africa was in the past driven by natural resources and infrastructure, but the last decade new markets have opened up in fast moving consumer goods, financial services and telecommunications.

Brent Williams, CEO of Cliffe Dekker Hofmeyr, says much of the firm's growth in the past two years has come from clients in SA and from the rest of Africa. The key growth areas are mergers and acquisitions, capital markets, commercial real estate, commercial dispute resolution and arbitration and tax. Clients are also turning to law firms to help them navigate increasingly tortuous employment laws, finance and banking codes and competition law, while projects and infrastructure and technology law are other areas of growth.

"Driving a lot of legal advisory work at present is the interest in investment in Africa, driven in part by a search for returns that disappeared from developed markets, post the global financial crisis. There are two aspects to the search for returns. The one is the renewed effort to capitalise on Africa's mineral resources and the other is to capitalise on particular oil and gas discoveries in the past few years that were made off both the east and west coasts of the continent. In addition, Africa's burgeoning middle class is driving demand for consumption, such as retail and also utility outputs such as telecommunications, electricity and water," says Williams.

Africa's vast infrastructural needs are also attracting investment, particularly rail, roads and ports. "Many infrastructural service providers are multinational and as such attract global lenders both from a development finance perspective, and also from a retail banking perspective, who are keen to supply the needs in the market and to reap the benefits," adds Williams.

Bowman Gilfillan Africa Group has offices in SA, Botswana, Kenya, Madagascar, Uganda and Tanzania, and has an alliance with Nigerian firm, Udo Udoma & Bela-Osagie. "Our growth in Africa is expected to continue with the group looking to expand our offering while remaining focused on delivering seamless cross-border legal services in Africa. This is in keeping with the group's strategic vision of becoming Africa's pre-eminent law firm," says a spokesperson for the firm.

NO SOUTH AFRICAN COMPANY WOULD VENTURE INTO CENTRAL OR WEST AFRICA WITHOUT AN ACE LEGAL EXPERT AT ITS SIDE. THE RISKS ARE SIMPLY TOO GREAT.

THE BIG 6 LEGAL SERVICES FIRMS

	FOUNDED	NO. OF OFFICES	NO. OF ATTORNEYS	NO. OF EMPLOYEES
Bowman Gilfillan Africa	1885	8	476	343
Cliffe Dekker Hofmeyr	1853	2	300+	600+
ENSafrica	1905	14	600+	1 100+
Norton Rose Fulbright SA	1922	3	200+	500+
Webber Wentzel (in alliance with Linklaters)	1868	2	450+ *	800+
Werksmans	1921	4	195 (incl. 35 CAs)	390

**Fee-earning attorneys (including candidates)*

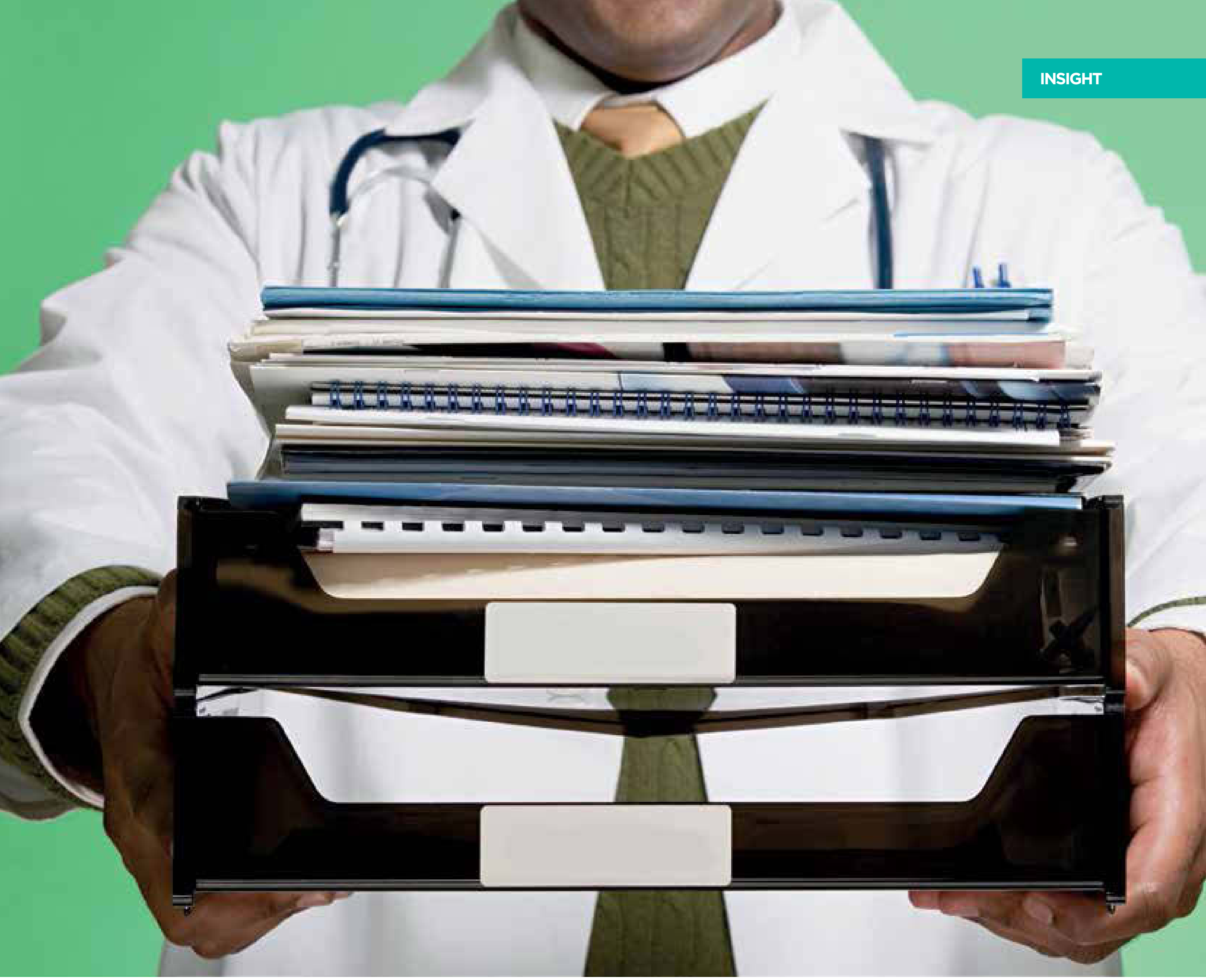
WHAT ABOUT THE SMALLER LAW FIRMS?

Anyone driving along the N1 to Pretoria would be hard-pressed not to notice the shiny new offices of Adams & Adams. The firm occupies a unique niche in the legal firmament, specialising in intellectual property law and general commercial legal services. For decades it has been the go-to firm for copyright and trademark issues, though it has expanded into other areas of law. Founded in 1908, today it has 68 partners and more than 130 attorneys and 385 support staff. It, too, is making its way into Africa, with four offices in SA and satellites in Mozambique, Angola, Tanzania, Burundi, Lesotho, Swaziland, Botswana, Namibia and Cameroon.

There is no question that regulations and laws have tightened immeasurably since the financial collapse of 2008, particularly when it comes to cross-border transactions. Hence the need for a multi-disciplinary approach to advisory services. Norton Rose Fulbright's Van der Westhuizen says the firm's regulation and investigations team represents corporates, financial institutions, mining houses and individuals in internal and regulatory compliance hearings and investigations, as well as enforcement proceedings brought by domestic and international regulatory bodies.

It's no longer a question of simply understanding the law. It's a question of understanding the world of business and all its risks. That explains why contracts are longer and more verbose, and why the courts are backlogged with cases. And why law firms are having to find bigger offices. ■

editorial@finweek.co.za



Gallo Images/iStock

Medical aid schemes: How they stack up

BY BUHLE NDWENI

Choosing a medical aid scheme is often a daunting task and consumers typically go with whatever suits their pocket, hoping it will cover their medical expenses when they need it most.

In an attempt to help employers choose the right medical aid scheme for their employees, GTC (formerly Grant Thornton Capital) released its fifth GTC *Medical Aid Survey* earlier this month, enabling users to compare apples with apples as they weigh the costs and level of coverage offered by the different medical aid schemes. The medical aids were ranked according to the types of plans (for example comprehensive options), network or non-network plans (a network option may be cheaper, but will have limitations regarding the hospitals and doctors, for example, you can visit) and the costs involved.

Based on this year's report, CompCare Wellness's Mumed NN medical aid option, at a risk premium

of R24 408 for a family with two adults and two children, is the best option for a family who is on a saver and network plan (see table). In the same category, but a non-network plan, Profmed's ProActive plan at a risk premium of R19 404 came out tops. (Note that income restrictions are in place to qualify for these plans.)

The risk premiums are taken from the overall premiums that the schemes release to the public. GTC looked at the premiums and removed any allocation which the scheme made towards any "savings account" element that their plan might offer.

When it comes to comprehensive coverage for a family of four, Fedhealth Maxima Standard Net was the top-ranked medical plan, at a total cost of R74 188 for the complete option. On the non-networked option, Fedhealth's Maxima Basis (at a cost of R74 266) came out tops.

In the survey, Complete Cost refers to a total of the premium charged by each plan range for the year and also includes any allocation which a member may be asked to make, to cover the Self Payment Gap for each plan.

THE VARIOUS MEDICAL AID SCHEME PLANS

The network and non-network medical schemes were categorised into five groups: from beginner/blue-collar plans to core, saver, comprehensive and the traditional plan. Members have to understand what is included and not included in the medical aid plan they are choosing to belong to.

■ **BEGINNER:** Most of these are the salary-banded groups. They are the least expensive and provide entry into the medical aid schemes arena, says Larkan. "Most of them are capitation or fee-per-service kind of schemes and easy to join. They are grouped in themselves into four separate plans you can belong to. Some are "state" – where you have to use state facilities if you want to go to hospital. There are those with no out-of-hospital cover, others restrict you to a network of hospitals and there are others that say you can go to a hospital of your choice," she says.

■ **CORE:** This is the new generation plan that provides the very basic medical aid needs, which will cover prescribed minimum benefits (PMB), chronic illness and in-hospital cover and there's no savings plan. This means that you have to pay for anything that does not fall under your hospital cover.

■ **SAVER:** This is the next step up from the core plan. It allows for a small savings account and has both hospital and chronic-illness benefits.

■ **COMPREHENSIVE:** There are few of these, says Larkan. They have a small savings, self-payment gap cover and an unlimited additional savings account. She says for the research they only grouped those with an unlimited additional savings account as comprehensive plans, although other plans without this also considered themselves comprehensive.

■ **TRADITIONAL:** Traditional plans were not given a rating under the limited time frame of the survey, since specific rand-and-cent value would have to be given for each individual plan, says Larkan. "Traditional plans are the hardest to compare, because one traditional plan might offer six dentist visits, unlimited maternity benefits [for one person], three GP visits and two physiotherapy visits and another might offer no maternity visits but unlimited dentistry and 12 doctor visits and R40 000 for medicine," says Larkan.

Gary Mockler
GTC Group CEO

"Effectively it is a combination of the Total Premium PLUS Self Payment Gap. This is a theoretical number, to enable us to compare plans. There is the smallest of possibilities that this would actually be the only costs which members could be asked to pay on medical expenses for the year, even on a comprehensive Plan," says Jillian Larkan, head of GTC Healthcare Consulting.

> YOU GET WHAT YOU PAY FOR. MEDICAL SCHEMES ARE NON-PROFIT: IF YOU PUT X AMOUNT IN, YOU CAN ONLY SPEND X AMOUNT."

However, GTC cautions that only 21 open medical aid schemes, which are comprised of the 178 different plans available in the country, are included in the survey. Larkan says not all open plans were included because some service providers didn't release their information in time to be included in the survey, while others chose not to be included.

The survey looked at 12 different hospital cover plans, but comparing these was a challenge since their benefits range vastly from one plan to another. One may only provide 100% in-hospital cover, compared to another which may provide 200% in-hospital cover, says Larkan. "When you identify that the in-hospital cover is doubled on one plan compared to another, you

Jillian Larkan

GTC MEDICAL AID SURVEY RANKING

WE GIVE YOU THE TOP-RANKED OPEN MEDICAL AID PLANS FOR FAMILIES MADE UP OF A MEMBER, ONE DEPENDENT ADULT AND TWO CHILDREN

SAVER (NETWORK, FAMILY)

RATING	PLAN NAME	RISK PREMIUMS
1	CompCare Mumed NN (R501–R7 900*)	R24 408
2	CompCare Mumed N (R0–R6 000*)	R26 544
3	CompCare Mumed NN (R7 901–R15 000*)	R27 444
4	BestMed Beat 2 N	R29 856
5	CompCare Mumed N (R6 001–R7 900*)	R30 408

**Consumers have to fall within a specific income band to qualify for these plans.*

COMPREHENSIVE (NETWORK, FAMILY, COMPLETE)

RATING	PLAN NAME	RISK PREMIUMS
1	Fedhealth Maxima Standard Net	R74 188
2	Discovery Essential Delta Comprehensive	R96 864
3	Momentum Extender Assoc State	R97 332
4	Discovery Classic Delta Comprehensive	R100 176
5	Momentum Extender Assoc Assoc	R107 664

would expect to see vast differences in premiums," she says.

"If the basis of the medical aid is 100% and your plan covers you at 100%, it covers you at a rate which is approximately equal to 100% public admission rate to be seen by a public specialist in a public hospital," says Larkan.

But this is where the greatest mistake that medical aid members make is to make assumptions about what this means. "Mathematically we may understand 100% as everything, but in healthcare terms 100% is not everything. It doesn't mean that all your specialists who charge 200%, 300% or maybe even 400% will be covered by your medical scheme. Your medical scheme will only pay up to the percentage to which they've agreed."

The fact that the 100% plan may not cover a member at 100% has seen the entry of gap cover, which makes up the difference between what a specialist will charge in hospital and what the medical aid is prepared to pay. But this is provided a member can get onto a gap cover, which is short-term insurance that tends to have waiting periods and other terms and conditions, states Larkan.

A STARTING POINT ON THE ROAD TO A BETTER CHOICE

For consumers, the survey makes it easier to compare medical aids in specific categories and also takes into account their salary bands. Ultimately, though, it will be impossible to receive comprehensive cover on a basic plan.

"You get what you pay for. Medical schemes are non-profit: if you put X amount in you can only spend X amount. You can't possibly expect comprehensive cover if you are only choosing to pay a basic premium," says Larkan. In this way, the healthy members subsidise the sick and and would not indicate that you could only expect cover to be limited to what you paid in for the year, she adds.

With the survey, the researchers first looked at the cost of the medical aid plan and then the coverage received, the macro considerations and then the actual needs of the client. "We start by identifying what the client is going to look at first, and he's always going to look at his bottom line first. So we start from there and work backwards, to say this is the range of premiums that we can help you with and what benefits do you need to look for. From there you look at the different healthcare plans and find some that fit within the client's requirements," explains Larkan.

Your medical aid may be right for you at the moment, but two years down the line it may be outdated because you have two more children and one of them has a medical condition such as attention deficit hyperactivity disorder (ADHD). So your medical needs have to be reviewed constantly – this can be done by talking to a healthcare consultant and discussing the benefits of the various plans and changes that have occured in your life, says Larkan. ■

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Five ways to be **resilient** in the workplace

BY WILLIE VISSER

RESILIENCE IS THE ABILITY TO **OVERCOME** CRISES OR BOUNCE BACK FROM DIFFICULT TIMES AND STRESSES.

The workplace of today is often infused with fast-paced change, uncertainty, complexity and stress. There are the pressures of work backlogs, demanding clients and lingering threats of restructuring that bring job insecurity and the accompanying financial implications of losing an income.

Welcome to the modern workplace. All these kinds of situations ask for some kind of adaptive response, which might – if the blows all come at the same time – reduce your ability to deal with them.

How do you keep confident and motivated without being overwhelmed and being unable to perform?

This is where resilience comes into play. Resilience is the ability to overcome crises or bounce back from difficult times and stresses. It is about responding with inner strength to the demands; an ability to absorb turmoil, to stay competent while at the same time renewing yourself.

THINGS THAT WILL HELP TO THRIVE DURING DIFFICULT CIRCUMSTANCES ARE:

1 **Stay positive and optimistic even though things are not going as you would like them to go.** Optimistic and positive people have a positive and hopeful view of the future and they expect that things will work out well in the end.

2 **Face your hardships.** Do not shy away from your problems, but rather face up to them even though they seem unpleasant at the time. Make a deliberate choice to do something about your difficult situation, while at the same time ensuring that your emotions do not become negative.

3 **Be determined.** Refuse to accept failure as an option and persevere even when you experience some setbacks. Face and deal with the obstacles that come your way, one by one.

4 **One of the most important skills of resilient people is that they do not get involved in negative thinking patterns about themselves and the problems that they face.** Do not ruminate about your problems. Make an active choice to stop moaning and groaning about them.

5 **Seek out the support of your friends and family.** If people complain too much about their problems, they will cut themselves off from a potential protective factor, namely finding some form of social support. They rather listen to other people's perspectives on what can possibly be done to resolve their problems. Remember the expression: "Misery likes company, but company does not like misery."

THE NEXT TIME YOU ARE IN A TIGHT SPOT, ASK YOURSELF THE FOLLOWING:

- Am I staying positive and optimistic about this situation – what can I do to stay positive and optimistic?
- What small step can I take to solve this problem right now? Doing something, however small, will give hope and motivation to carry on.
- Do I believe that things will work out well in the end?
- Am I determined to overcome this problem?
- Do I complain about my current problems?
- Do I have a good friend to talk to about the situation that I am facing? ■

editorial@finweek.co.za

Dr Willie Visser is the director of the Centre for Positive People @ Work, providing thought leadership, research and practical implementation in employee engagement.

Gallo Images/iStock

BUY SELL ✔ HOLD

RENERGEN

A great start

THE NEWEST JSE listing is a special purpose acquisition company (SPAC), essentially a listed cash shell that will find businesses to buy. In the case of Renergen it has some R74m, which equates to R10 a share, and the shares have traded up at R18, a fairly chunky premium.

The plan is to invest in renewable-energy companies. The rules of a listed SPAC require that an acquisition be made within two years and I suspect we'll see a deal announced sooner rather than later.

The issue for me is multifold: firstly the hefty premium, but also the hype around the renewable-energy tag. This is a hot space and will be massive in decades to come, but right now it is an area of experimenting with little profitable substance and it is the profitable part of the equation that is of most importance.

The share has run already since listing and an announcement of an acquisition will send it soaring higher. Then it will be time to sell as the real, and hard, work of making profits will start. ■

Simon Brown Last trade ideas

- SELL **Clover**
- SELL **Choppies**
- BUY **RMBMID**
- HOLD **South32**

BUY ✔ SELL HOLD

MTN GROUP LTD

Strike woes

STILL BESET WITH labour disputes, MTN Group, which is experiencing its first strike in South Africa since its launch in 1994, has bared the brunt of a disgruntled workforce. Its share price has plunged and customers are being turned away due to a shortage of mobile phones. Low pay, insufficient weekend remuneration and a lack of transport money are key reasons why hundreds of MTN staff from the call centres and service branches hit the streets.

The initial demand was for a 10% pay raise, a bonus of 16% of their annual salaries, and the termination of "unfair" labour practices and the use of labour brokers. Workers also demanded a task team be appointed to determine which employees have been short-changed by salary adjustments. MTN has offered an 8% performance-related pay rise, postponed its annual half-marathon charity run (planned for 13 June), citing security risks posed by the strike, and expanded its Rush Hour bundles (access to 100MB of data for one hour at R10).

Although negotiations are ongoing, MTN has lost a significant amount of its share value and, frankly, this strike saga is now old news. Which means the result should be priced in.

A new buying opportunity is waiting above 22 300c/share, with a potential 100% retracement to the 25 000c/share prior high. Positions could be increased above 23 800c/share if resistance is not encountered, or else a stop loss must be carefully monitored. The secondary target would be situated at 27 000c/share. A reversal below 21 100c/share, from current levels, would negate this near-term bullish call. ■

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Moxima Gama Last trade ideas

- BUY **Brait SE**
- BUY **Pan African Resources***
- BUY **Afrimat***
- BUY **Petmin***

*Selected by Warren Dick

MORNINGSTAR AWARDS 2014: BEST GLOBAL EQUITY FUND

Ideal for **offshore** exposure

OLD MUTUAL GLOBAL EQUITY FUND

The fund invests in shares from around the world and aims to deliver "superior returns" over the medium to longer term in the process. It is suited to investors who want to diversify their portfolios by adding an international equity component or investors who are taking a specific view on the performance of global equity relative to other asset classes, Old Mutual says. The recommended investment term is five years and longer.

FUND INFORMATION

Benchmark:	MSCI World Index
Portfolio managers:	Ian Heslop, Amadeo Alentorn and Mike Servent
Minimum lump sum/monthly contribution:	R10 000/R500
Total expense ratio (TER):	2.07%*
Fund size (Rbn):	6.8
Contact information:	0860 234 234 / www.omut.co.za / unittrusts@oldmutual.com

**The TER is for the Class A category of the fund, and includes the annual service fee.*

FUND PERFORMANCE
(PER YEAR, AS AT 31 MARCH)

	1-Yr	3-Yr	5-Yr	7-Yr	10-Yr
Old Mutual Global Equity Fund (Class A)	24.1	35.8	26.3	12.9	14.6
Benchmark	22.8	31.4	22.3	11.8	14.3

Source: Old Mutual Investment Group

TOP 10 HOLDINGS
(AS AT END-MARCH)

1	Apple Inc.	2.3%
2	Johnson & Johnson	1.2%
3	Exxon Mobil Corporation	0.9%
4	Intel Corporation	0.9%
5	Novo Nordisk AS	0.8%
6	Gilead Sciences	0.8%
7	Amgeen Inc	0.8%
8	Biogen Inc	0.8%
9	Altria Group Inc	0.7%
10	Union Pacific Corporation	0.7%
	TOTAL	**9.9%**

Fund manager insights

Despite the heightened levels of volatility, the Old Mutual Global Equity Fund offered positive returns in the first quarter relative to the benchmark. Stock selection within sectors, particularly in healthcare and IT (its two top holdings are in Apple Inc. and Johnson & Johnson), added the most value to the fund during the first quarter.

One of the fund's criteria is to select high-quality companies with sustainable growth prospects. Over the quarter, the fund reduced its underweight position in the energy and financial sectors while remaining overweight on IT and healthcare, it said.

The fund is heavily exposed to developed markets, with 56% of its exposure in equity in the US and Canada, followed by Europe (17.6%), the UK (8%) and Japan (7.7%). Exposure to Australasia was 4.1%, while 6.6% of the fund was held in liquid assets.

A number of factors will continue to impact on the volatility in global equity markets, including the possibility of a Greek default and exit from the eurozone, depressed oil prices and the divergent monetary policies in the US (where the Federal Reserve is expected to tighten its policy and start raising rates) and the EU (where a €60bn-a-month quantitative easing programme was started in March), and its impact on global currencies.

The dollar, for example, has been trading at multiyear highs against a number of currencies around the globe, driven in part in anticipation of higher borrowing costs in the US, where rates have been near zero for more than six years. The only certainty is that we're in for a bumpy ride.

WHY *FINWEEK* WOULD CONSIDER ADDING IT

With little in the local economy to cheer about and the JSE trading at historically high levels, it is only natural that investors will increasingly be looking for opportunities to increase their offshore exposure. But with the rand trading at levels of around R12.42 against the US dollar, now may not be the wisest time to move substantial amounts of capital overseas (also see p. 45).

However, any balanced portfolio should include global equities. Taking a long-term view, as this fund's managers recommend, would remove some of the concerns around current volatility and uncertainty in global equity markets. Besides, there are certainly worse companies to be invested in than the likes of Apple and Gilead Sciences. ■

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finweek

How to analyse **company debt**

BY SIMON BROWN

I write a lot about debt and am consistently checking company debt levels for a simple reason – debt is a classic two-edged sword. Used correctly, it can help a company grow but on the flip side, if it's abused or managed poorly, it can hurt growth or even lead to the bankruptcy of a company.

The key point of debt is that if a company is borrowing money that it can afford to pay back and the loan ultimately adds extra revenue and profit ahead of the cost of the debt, it is a good deal. So, as an example, it would be great if a company borrowed money at say 10% that led to an increase of 15% in profits.

Debt is also the preferred way to raise money; other options such as rights issues are problematic as new shares are issued and essentially you're paying for that new money forever by way of the new shares that have a permanent claim on future profits and dividends. In other words, the extra shares exist forever whereas debt can be paid back.

So given that debt is a useful but potentially dangerous tool, how do we monitor it and ensure a company's debt is not life-threatening?

Firstly, we would check the balance sheet. Debt will be listed on the liability side either as current (due within the next 12 months) or non-current (due after the next 12 months).

The figure for current debt is important as the company will have to pay it back or roll it over via a new loan and the question is whether the company can manage one or the other.

We will also sometimes see some debt sitting in an overdraft facility. This I don't like one bit. Firstly, an overdraft is expensive debt in that it will be at a high interest rate; secondly it can be called at any stage (in other words the lender can request immediate repayment). The problem with this type of debt is why it was taken out in the first place. Overdraft debt suggests the company needed some cash in a hurry and rather than (or perhaps unable to) borrow money, it simply ran up an overdraft. This suggests either a crisis or lack of planning.

Gallo Images/iStock

IT WOULD BE GREAT IF A COMPANY BORROWED MONEY AT SAY **10%** THAT LED TO AN INCREASE OF 15% IN PROFITS.

SO NOW THAT WE KNOW WHERE THE DEBT IS, HOW DO WE LOOK AT IT AND WHAT RATIOS SHOULD WE USE?

Certainly the preferred ratio for debt is the debt-to-equity (D/E) ratio or the net-debt-to-equity ratio. This is simple the equity on the balance sheet (remember equity is all assets less all liabilities) into which we divide debt.

The second version is net debt – here one would remove any cash the company holds from the debt on the assumption that this gives a clearer picture. While in theory cash can be used for paying off debt, it may have other uses. That said, typically I look at both.

I then compare a company's ratios to industry peers and the own company's previous levels. This now tells you how its current debt situation stacks up.

The annual report is another important document as it will give a lot more detail on the debt a company has. Payment dates and interest rates will be provided and the former is very important. If a company has a lot of debt expiring in say two years' time, what is the plan? Will it roll the debt over into a new loan or is the company planning to pay it off?

As a last point, debt should ideally be project-specific. I prefer when debt is raised specifically for a project or acquisition rather than when a company just borrows a large sum for no specific purpose. This makes it easier for shareholders to see if going into debt in that specific case was ultimately worth it or not. ■

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PPC – donning a contrarian hat

BY MOXIMA GAMA

With infrastructure spending under pressure, the construction industry and its related sectors – such as steel and cement – have been under pressure. Private sector spending on infrastructure, for example, halved last year to R95.4bn. In addition, construction companies have been hit by fines for collusion and price-fixing on tenders, notably related to World Cup stadiums.

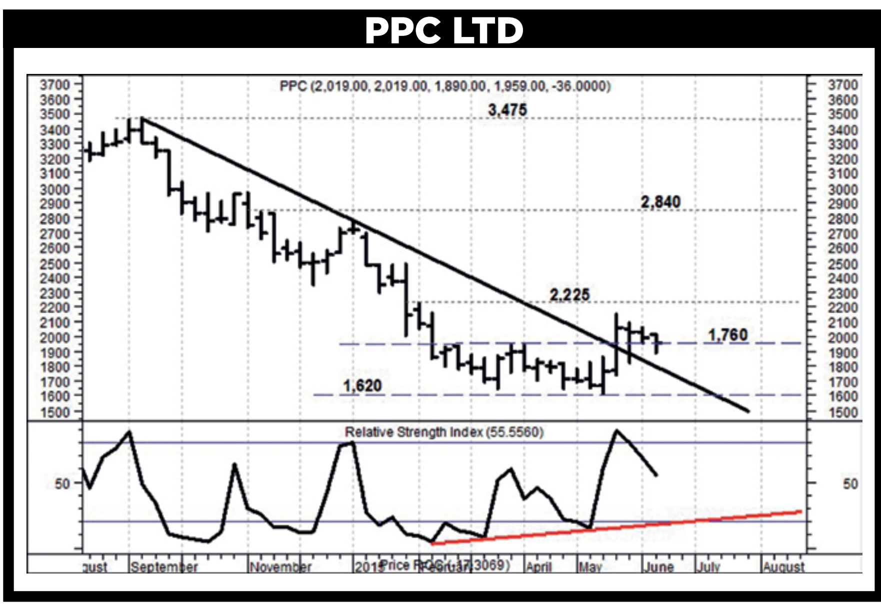
Profitability has plunged for most major South African construction groups, and stock prices for the main JSE-listed construction companies have plummeted between 42% and 72% in the past year. Most construction companies have felt massive pressure from a decline in mining investment and the almost "non-existent" roll-out of large state infrastructure projects in South Africa, while they are also facing labour disruptions and problems with legacy contracts.

On the plus side, draft regulations that aim to overcome problems related to non-payment of contractors and sub-contractors in the building and civil engineering industries were published earlier this month. Similar payment regulations have been introduced in the UK, Singapore, Hong Kong, New Zealand, Australia and most recently Malaysia, and are said to have made a positive impact.

With the construction industry in the doldrums, it's inevitable that suppliers to the sector will suffer the same fate. PPC, which has been hurt by its own boardroom squabbles last year leading to the high-profile departure of former CEO Ketso Gordhan, has plunged to levels last tested in 2004.

Despite PPC's efforts to diversify, expand and acquire businesses in Zimbabwe and Botswana, investors are less than convinced. A proposed merger with AfriSam, which would have seen the combined group control about 60% of the local cement market, was called off in March.

But look at it this way: construction in SA has suffered a big blow and the companies have paid dearly in terms of share value. How far can these shares still fall? Wearing my contrarian hat, to me, current levels make good buying levels – a call that's purely based on the fact that PPC, in particular, could be bottoming up.



POSSIBLE SCENARIO:

PPC has broken out of its steeper bear trend (within its major bear trend) and ended the consolidation phase of a potential bottoming-up pattern. Support retained at 1 760c/share would increase the chances of the group embarking on the ascending phase of the bullish reversal pattern towards the 2 840c/share prior high in the short term (one to six months). However, stop losses should be carefully monitored with this call. A 100% retracement to the 3 475c/share level would even be possible above 2 840c/share.

ALTERNATIVE SCENARIO:

A reversal below 1 620c/share could trigger another sell-off to the 1 215c/share support mark – PPC would then test its 2003 lows. ■

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52-week range:	R16.20 - R34.71
1-year total return:	-34.6%
Current P/E ratio:	13.94
Market capitalisation:	R12.1bn
Earnings per share:	R1.43
Dividend yield:	5.02%
Average volume over 30 days:	2 613 163

SOURCE: Bloomberg.com

Simon's stock **tips**

BY SIMON BROWN

NOW THE REAL WORK BEGINS

We got good results from Telkom*; even better, the parastatal paid out its first dividend in four years. Then it followed up with an announcement of a staff retrenchment programme. With government as the majority shareholder, that will not be easy to implement. But all said, the results did nothing to the share price as improved results were already priced in with the stock up over 200% in the last couple of years and, even with recent share price weakness, the stock is over 40% up in the last year. The turnaround appears to be well on track and management seems to have a good grasp of the various operational units. However, the first stages of a turnaround are relatively easier than the really hard work involved in the final stages of any turnaround. Management seems well up to the task but, as mentioned, the share price has pretty much already priced this all in. Now it is time for Telkom to deliver.

SELLING ASSETS SHOULD NEVER BE A GOOD THING

Another struggling sector is mining and in particular gold mining. This is illustrated by AngloGold Ashanti's announcement that it is selling one of its US mines for $820m – and the share price surged on this news. Selling off assets (in this case gold mines) should not be great news, but in this struggling industry it is certainly viewed as such. The deal is clever in that the company gets an uncapped royalty on future underground production as well as reduced debt and capital expenditure costs. But ultimately the reality is that it is selling assets to keep going – that's never good.

NOT WITH A 10-FOOT POLE

The construction sector remains a sector best avoided and this was once again illustrated by two recent announcements. Firstly Murray & Roberts announced a R4.8bn contract that adds some 12% to the order book. Nice, but considering we have no idea of margins or anything else, it is hardly worth the excitement we saw when the deal was announced. More than anything, it shows how desperate shareholders are for any good news. We then saw a trading update from Aveng indicating HEPS will be at least 50% lower. This sent the stock plunging, although it had run on the Murray & Roberts announcement. This sector remains extremely tough and I am leaving it well alone.

NO THANKS

There have been reports that Anglo American Platinum is looking to separately list its Rustenburg platinum mines as it can't find a buyer at an acceptable price. The usual rules apply here: if nobody else wants these mines, why would I?

BEGGING TO DIFFER

Peregrine results were absolutely top notch and here is a local sector that is doing well (Anchor Capital and Coronation in particular). Peregrine saw HEPS up 28% while the dividend was up 50% and it is on a very good trajectory, with more upside very likely. I do however disagree with members of management who stated that normalised earnings are a better reflection of how the business is doing as they exclude share-based payments. So are they saying that these free shares have no cost to shareholder or the company? I totally disagree, hence I use the real HEPS increase of 28% rather than its normalised HEPS increase of 36% that management prefers to parade.

LONG WAIT AHEAD

African Bank finally released results and they were horrid. The institution also announced that the good bank part of African Bank should be trading again by October. That said, shareholders of the collapsed African Bank won't be getting new shares anytime soon – the curator has suggested that a couple years' trading history will be needed before the bank can be listed. ■

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**The writer owns shares in Telkom.*

Over a century old, **JSE** boasts solid track record

BY SHAUN MURISON
Market Analyst at IG

The JSE came into existence following the South African gold rush almost 130 years ago. In the early 1990s the stock exchange upgraded to an electronic trading system. In the 2000s it launched the AltX and YieldX exchanges and acquired the South African Futures Exchange (SAFEX) as well as the Bond Exchange of South Africa (BESA).

The JSE now remains South Africa's only full-service and licensed securities exchange facilitating transactions in the equities, bond/interest rate, financial, commodity and currency derivatives markets. This makes for a Warren Buffett-style monopoly investment case, especially when we consider the extensive barriers to entry for competitors and in turn the inherent pricing power of the operator, which manages the largest equity exchange in Africa, in terms of value traded.

As the provider of both primary and secondary markets as well as the technology services to facilitate trades, the JSE also operates as the regulator thereof and sells market data.

EXCLUDING THE CONTRIBUTION FROM MEMBERSHIP FEES, ALL THE DIVISIONS HAVE SEEN A GOOD GROWTH IN REVENUE.

The cash equity operations make up the bulk of the group's revenue. This consists of fees relating to the equity market, the primary market, membership, back-office services and post-trade services and amounts to almost 70% of group revenue. Excluding the contribution from membership fees, all the divisions have seen a good growth in revenue. Strong annuity growth in 2014 was largely as a result of 24 listings in the most recent financial year, showing an improving interest in the capital markets at present.

The JSE (Ltd, not the exchange as a whole) has historically produced a healthy return on equity at around 28%. Headline earnings growth remains in double-digit territory (14% in the 2014 financial year), while a decent yield in terms of dividend of around 3.3% has been returned to investors in the past. This makes a total return of 13% to 15% a feasible expectation going forward based on historical performance. Trading on a forward price-to-earnings (P/E) multiple of 15.5 times, the JSE trades at a marginal discount to the average P/E multiple of the Alsi's constituents, as well as a number of its major US, European and Asian peers.

The JSE remains relevant in the functioning of our domestic economy, providing both local and foreign access not only to local capital markets, but also serves as a gateway into the African continent. The regulator, which is highly regarded in terms of global securities regulation, has had a solid track record since its listing, suggesting a strong addition to an investment portfolio with a long-term time horizon. ■

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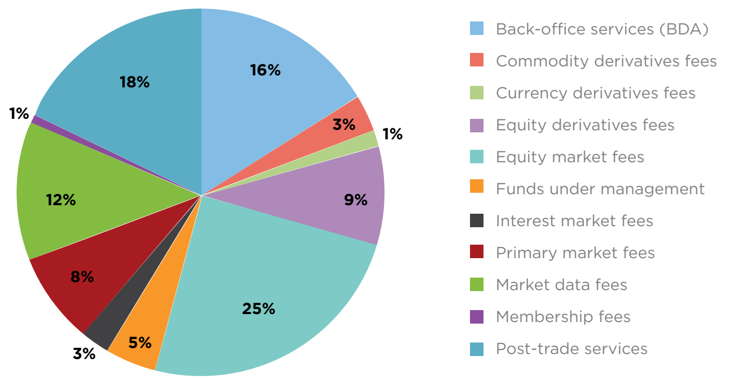
Revenue breakdown *



*Based on total revenue of R1.8bn for the year to end December 2014.

SOURCE: JSE Ltd, IG

Investing offshore: Why less is more at current rand levels

BY SCHALK LOUW
PORTFOLIO MANAGER AT PSG WEALTH

I always enjoy the story of how the Springboks played a test match against Scotland at Murrayfield Stadium in Edinburgh in 1951 and how they beat them with a record score of 44-0. The Scottish commentator, Bill McLaren, famously told his listeners that the Scots were lucky to have scored zero points.

We heard the same words from many investors 50 years later after they were pulled down along with a rand that lost more than 50% of its value against the US dollar in a three-year period up to the end of 2001 (R6/$ down to R12/$).

THE RAND, THEREFORE, IS TRADING AT A PREMIUM OF NEARLY 66% COMPARED TO ITS PPP VALUE. WE WILL ALSO NOTE THAT THE RAND ONLY TRADED AT SUCH **HIGH PREMIUMS ON THREE PRIOR OCCASIONS SINCE 1981:** IN 1985 (RUBICON SPEECH), 2001 (RAND MANIPULATION) AND 2008 (GLOBAL FINANCIAL CRISIS).

Decisions were made in fear of further devaluation and a large number of foreign investment opportunities were taken up, only for investors to discover that, until recently, they should have been 'happy' with 0% growth on their capital in rand terms.

Back to the present. For nearly a decade, no one cared for foreign investments, but I'm becoming increasingly worried about the number of readers and clients who recently approached me for the first time since 2001/02 asking about the best possible foreign investment opportunities. Why?

Let's look at the value of the rand. The easiest way to determine its value is first and foremost to establish why it weakens and strengthens. Our general benchmark is the US dollar. The rand should weaken with the difference in South African and American inflation rates.

In December 1981 the rand was R1/$. If the rand weakened yearly with the difference in inflation between South Africa and the USA since 1981, we will note that it is not currently trading at its indicated purchasing power parity (PPP) of R7.55/$, but rather at R12.50/$.

The rand, therefore, is trading at a premium of nearly 66% compared to its PPP value. We will also note that the rand only traded at such high premiums on three prior occasions since 1981: in 1985 (Rubicon speech), 2001 (rand manipulation) and 2008 (global financial crisis).

Furthermore, we will see that the rand traded at an average premium of 36% over the past 22 years (since the build-up to the first democratic election). Unfortunately, our currency has become a global speculative 'toy', and I urge readers and investors to act with extreme caution when it comes to new offshore investments right now.

Although historical figures bear no promise for future performance, it is still unlikely that I would get rid of my own rands, regardless of all the bad news about SA that is currently filling up the worldwide press. My reason is simply because I won't be told that as soon as the 'dust settles again', the rand won't be able to strengthen to levels of between R9-R10/$ (closer to the 36% premium compared to its fair value).

Short term, I would recommend to keep in mind the golden rule of applying make-up – 'less is more' – when approaching any new offshore investment transaction. Rather focus on personal debt levels, because if the rand does weaken further, interest rates will be in danger of rising. ■

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Why you should **never cash in** your retirements savings

BY BUHLE NDWENI

A recent survey conducted by Sanlam found many employees are unaware of the effects of cashing out their retirement savings when they change employers, and many pensioners said they now regret doing so, says Viresh Maharaj, chief marketing actuary at Sanlam Employee Benefits.

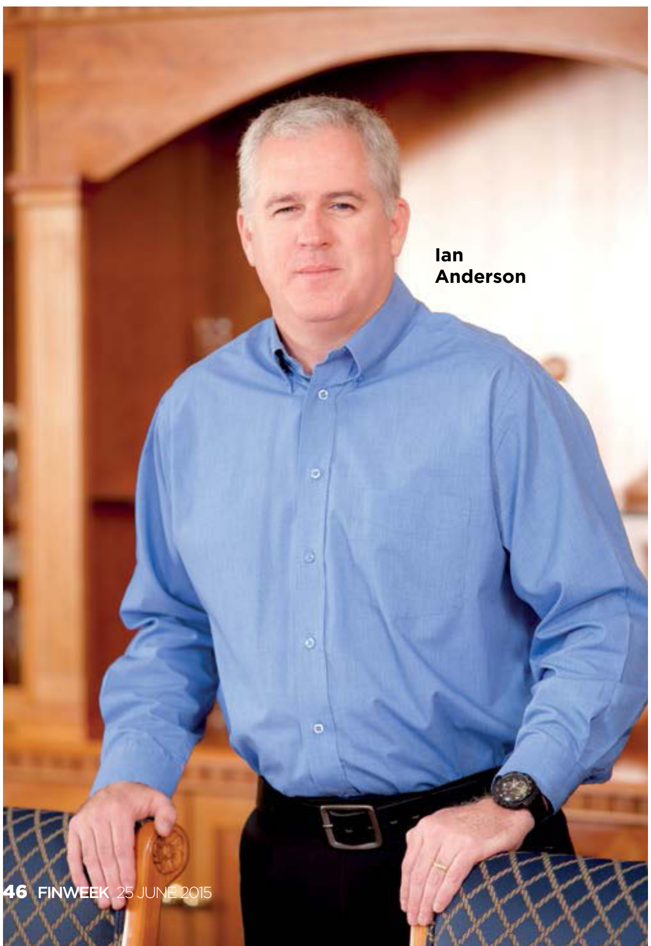
The research included responses from 100 stand-alone funds, 100 employers participating in umbrella funds, 503 active members and 250 pensioners.

"Almost half of all active members and more than half of all pensioners indicated that they did not understand how this seemingly innocuous decision would negatively affect their ability to create lifetime wealth. With the benefit of hindsight, they indicated that they now regret their decision to cash in their savings," says Maharaj.

> "THE FIRST SEVEN YEARS OF YOUR RETIREMENT SAVINGS WILL CONTRIBUTE MORE THAN **HALF** OF YOUR TOTAL PACKAGE [WHEN YOU RETIRE] AT THE END."

He says assuming a young person changes jobs every five years and opts to withdraw their retirement savings each time they switch employers, the research shows that had they preserved these savings from the start of employment, they would have close on 16 times more wealth at retirement compared to the amount they would have built had they cashed it in.

"Better communication is required of employers to equip employees to make better decisions when they change jobs. 63% of respondents who cashed in their savings reported that they used the cash to settle debt ranging from credit cards through to mortgage bonds," Maharaj explains.



Ian Anderson

Viresh Maharaj

RETIREMENT SAVINGS – HOW MUCH IS ENOUGH?

Nowadays retirees are living healthier and longer lives, but will their retirement savings last them over the decades after they retire? For many retirees, it becomes a race towards death or poverty – will you die first, or be destitute first?

Anderson says this is why the asset management industry should not focus on the wrong objective, which is the size of the retirement pot or net worth, but on how much income the pot will produce. "The amount of income the pot can provide might be significantly lower because annuity rates, interest rates, bond yields or dividend yields are too low."

He says although retirement annuities (RAs) are seen as the vehicle to save towards retirement, the industry should reconsider if this is the best option. For instance, 15 years ago RA rates were 12.5%, says Anderson, but they are currently less than 6% because interest rates are low, and since bonds and cash are not risky assets, RAs are invested in those types of portfolios.

Asset managers focus on the capital value - the price appreciation that they can achieve - instead of focusing on the income they are providing, he says. But is this going to be enough to provide a significant income to maintain a member's current standard of living even after they retire?

"We look at the system and say it's flawed at the moment, not because people are not saving enough – people are saving enough. [It's] not because the markets aren't generating the right returns – they are. But the problem is people [members, asset managers, and financial advisers] are not focusing on the right outcome. The outcome they should be focused on is: 'Will I have enough income?', not 'Will I have enough capital?'."

He says the flaw is that some asset managers invest members' retirement savings into growth assets before retirement and then in income assets when members are in retirement. Instead, a combination of growth and income assets would be a better option, such as dividend-paying and growing equities and listed property, Anderson says.

Government has a hefty tax penalty of 18% for people who choose to withdraw their retirement savings before retirement. But Maharaj says half of the people they surveyed did not understand the tax implications of early withdrawals.

When young people cash in their retirement savings, they often think that time is on their side and that they still have plenty of time to save towards a comfortable retirement.

Grindrod Asset Management's chief investment officer Ian Anderson says this is the biggest mistake younger employees can make regarding their retirement savings, since the first five to eight years of a member's contribution play a vital role in growing the retirement nest egg.

"Those are the contributions that spend the most time in the market," says Anderson. "They may not be your biggest contributions, but if you contribute as a 22-year-old and you retire at 65, that first contribution spends 40 plus years in the market. Your last contribution spends no time in the market; you make your contribution and they give it straight back to you. The first seven years of your retirement savings will contribute more than half of your total package [when you retire] at the end."

Maharaj illustrates the power compounding has on retirement savings by comparing two friends, Bongani and Derek, who both started working at the age of 20 and will both retire at age 65. Bongani invests R10 000 at the start of each year for the first 10 years of employment, but stops adding additional money to his investment. He decides to let his investment grow for the remainder of his 35 working years. Derek, on the other hand, does not invest at all for the first 10 years, but starts investing R10 000 each year thereafter for the remaining 35 years. For the purposes of this exercise, we assume a flat return of 10%. (See the table below for their respective situations at age 65.)

> "THE FIRST FEW YEARS ARE CRITICAL AS A YOUNG PERSON IS ABLE TO BENEFIT FROM THE POWER OF **COMPOUND INTEREST** THAT HAS AN EXPONENTIAL IMPACT ON THEIR WEALTH AS TIME PROGRESSES."

By investing for the first 10 years, even after stopping completely, Bongani used 71% less money to create 65% more wealth than Derek. Says Maharaj: "This is due to the power of compound interest that works hardest for younger people as they have more time to benefit from it."

If you are a chronic resignee and this article is the wake-up call you need, rest assured that it's not too late to start your journey to a lifetime of wealth creation. "Treat today as Day One of your new retirement planning journey… read widely, obtain a holistic financial snapshot of your assets and liabilities, and seriously consider seeking financial advice from a respected adviser," says Maharaj. ■

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CASHING IN VS STAYING IN

	Bongani	Derek	Difference
Amount invested	R100 000	R350 000	71%
Wealth accumulated	R4 926 000	R2 981 000	65%

MONEY 101
Top tips to help you **save**

BY KRISTIA VAN HEERDEN

When we kicked off this series, we promised to get you from financially flustered to investing with confidence. Until now, however, we've spoken very little about saving and investing and rather a lot about how to get your financial life in order.

If you've been following this series, you should have – or should be in the process of creating – an emergency fund equal to three months' income. You should also be actively paying off your debt and have an income replacement and disability product to protect your income. Once all of these things are in place, you are ready to save and invest.

Nitesh Patel, head of personal banking at Standard Bank, says it's often our mindset, rather than our income, that stands in the way of saving. Creating room in your budget for discretionary savings starts with an understanding of your current spending habits. Patel advises you start this process by recording what you spent your money on at the end of each day.

Lezanne Human, CEO of FNB Savings, Investments and Fiduciary, says while many South Africans believe they can't afford to save, it's important to create room in the household budget for savings sooner rather than later.

"Those who start saving early will reap the rewards in the long term. Time plays a huge factor in how your savings will grow, so the earlier you start to save, the more you earn because of compound interest," she says.

THERE'S NO SUCH THING AS TOO LITTLE

An analysis of your daily spending will help you identify areas where you could save. Small changes, like starting a lift club at work or packing lunch instead of buying it, could save you a few rand every day. Over time small amounts saved daily turn into large amounts.

Gallo Images/iStock

For example, says Patel, saving R40 per work day – about the price of a takeaway lunch – would result in massive savings over a 10-year period. If you worked 260 days per year and saved R40 per day, you would save R10 400 by the end of just one year. "The benefits of a packed lunch today could be worth the price of a small car in 10 years," he says.

KNOW WHAT YOU WANT

Saving for its own sake is harder than saving towards something. Building a savings or investment portfolio takes time and discipline.

"Create stretched but realistic goals and commit to the steps and sacrifices required to achieve them," says Human. "Temptations will creep up, but if your savings or investment goal is significant or worth-while, it will help to keep you focused." She adds that it's important to set interim milestones to ensure you remain on track.

PAY YOURSELF FIRST

"If your savings or investment strategy depends on what is left at the end of the month, you may be setting yourself up for failure," Human says. It's important to save and invest first, and then ensure the money you have left can cover the rest of your expenses. She says setting up a scheduled monthly transfer to a dedicated savings or investment account is an easy, free and automatic way to build a healthy balance.

SAVINGS HACK: If you've recently paid off debt, putting the amount you used to service your debt monthly into a savings account is an easy way to foster the discipline of paying yourself first.

TREAT YOURSELF

The best part about saving is that you get to reward yourself for your good behaviour. "Rewarding ourselves for hard work or a tough month is a great tool to keep us motivated and inspired," says Patel. "Instead of spending money on an item that you might like but do not need, consider rewarding yourself for reaching a savings goal. For example, when you've saved R3 000, go out and purchase that R500 outfit that you had your eye on. Saving can be addictive: the more you save the more you will want to save."

DON'T BE A PAY DAY MILLIONAIRE

According to Patel, many people spend 80% of their salary in the first week of receiving it. This leads to financial pressure towards the end of the month. "Create a culture where you stretch your money until the end of the month so you go into the new month with money from the previous month. Apply this thinking to everything you earn. If you get a promotion, put the extra money aside for savings and building up your wealth, rather than increasing your spending," Patel advises.

KEEP A CLOSE EYE ON YOUR ACCOUNTS

While it's a good idea to forget about spending your savings and investments to give them time to grow, Patel says you should still keep an eye on your accounts. "You may be paying a debit order for a service you no longer use. If you haven't used that gym membership in four months, consider cancelling it. You could use the money to pay off debt and being debt free will help you get your mojo back. You could also save money by using the online services offered by your bank. Instead of going into a branch, it's worthwhile considering doing most of your payments via internet banking and debit orders," he says.

If you're using the same bank account you opened as a teenager, it might be time for a change. According to Patel, evaluating your bank accounts is often a good way to save money. "You could save some cash by speaking to your bank consultant to get the correct account for your needs. Check your insurance and investment policies, they could be inefficient and not delivering what you need. Checking them regularly will enable you to see if you're overpaying in any areas and make adjustments that could save you some cash."

Human agrees, adding it's important to fully understand the savings and investment products you use. "Knowing the type of savings or investment product you are depositing money into will be empowering, as you'll be able to ensure that your product matches your risk, return and access needs."

Lezanne Human

"IT IS OFTEN OUR MINDSET, RATHER THAN OUR INCOME, THAT STANDS IN THE WAY OF SAVING"

She says it's good to buy products that match your circumstances or goals. If you aren't willing to take risks with your money, for example, you might need an inflation-linked product, while those with a greater appetite for risk might prefer to invest in shares.

Keeping your spending in check and setting money aside to work for you is as important as earning an income. ■

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The great savings debate: **Retirement vs education**

BY JUSTINE OLIVIER

The retirement landscape in South Africa is not a positive one. Living in a country known for its poor saving habits, South Africans often leave retirement on the backburner in favour of immediate gratification. Treasury reports that only 6% of South Africans will be able to maintain their current lifestyle come retirement age. Putting away enough for an emergency fund is a huge challenge for many, let alone saving enough money for retirement. This is further compounded by the need to put enough money away for the education of one's children – and the rising cost thereof.

"Given the cost of living, saving for retirement and saving for education, there are few who can comfortably afford all three. Studies are important, but spend the minimum amount possible to achieve studies [if battling to afford saving for retirement simultaneously]," says Ronald King, head of technical support at PSG Wealth. One of the worst things you can do as a parent is to depend on your child during retirement, he says.

> "GIVEN THE COST OF LIVING, SAVING FOR RETIREMENT AND SAVING FOR EDUCATION, THERE ARE FEW WHO CAN COMFORTABLY AFFORD ALL THREE."

"Your own financial future remains paramount," says King. "Paying for everything does not teach your child the necessary financial hardship lessons – that is an important part of education."

Overwhelmed with the cost of living, including the rising cost of education, the majority of South Africans are opting to save for retirement over saving for the educational needs of their children, a trend that has emerged globally.

However, as a parent, you cannot underestimate the importance of providing your child with a good education. So, how can one find the right balance and be able to save for

both retirement and a child's education?

"There are no quick-fix tips to solve this problem," says Lizl Budhram, head of advice at Old Mutual. "The only way to tackle this is with a detailed financial plan that will highlight any potential financial shortfalls. Then the adviser and investor can discuss possible strategies to address the identified shortfalls.

"This will give a clear indication of how much needs to be saved per month for each goal and whether there will be enough money or not. If not, it will also show exactly how big the expected shortfall will be."

If – even after seeking out an adviser – you are still unsure how you can meet both goals, perhaps a change in your lifestyle is required (see box for further tips).

When asked whether taking out a student loan to pay for your child's education was a good idea, Budhram says: "It could be a good idea, depending on many factors, such as access to credit, the surety requirements, the interest rate and terms of the loan, the appetite for risk that the parent and child would like to take with borrowing/investing funds and the timeline available before commencing studies.

"Each case needs to be considered based on its own facts," she says, reiterating the importance of seeking financial advice from an adviser.

However, she further says that this cannot be regarded as a general rule of thumb that will be an appropriate strategy for most clients. For example, it may be a much better strategy for a specific investor to postpone their retirement by a year or two if this will allow you to fund your child's education without taking out a loan.

What parents should essentially do is open up an educational savings fund for their child when they are born. Unfortunately, for most, this is not the case and alternate measures need to be taken. What needs to be kept in mind is that all hope is not lost. Saving for both is possible.

"Saving for the future means making choices and creating a balance between competing financial demands," says Danelle van Heerde, head of advice processes at Sanlam Personal Finance. A professional adviser will be able to work out how much you will need in retirement and structure an investment plan accordingly.

At the end of the day, only the investor can decide which one is the main priority. Saving for both is possible, but requires a well thought out plan. ■

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RETIREMENT VS EDUCATION: SAVING FOR BOTH

How you can save for both, according to the educational website 360 Degrees of Financial Literacy:

1. DEFER RETIREMENT OR WORK PART-TIME DURING RETIREMENT

The longer you work, the more money you'll earn and the later you'll need to dip into your retirement savings. Alternatively, working part-time during retirement would also mean that you won't need to dip into your retirement savings as heavily as you would still be earning your own income.

2. REDUCE YOUR STANDARD OF LIVING NOW

Adjusting your spending habits now will ensure that you will be able to retire comfortably while being able to provide your child with a good education.

3. INVEST MORE AGGRESSIVELY

If you have several years until retirement, you might be able to earn more money by investing aggressively – but remember that aggressive investments also bring a greater risk of loss.

4. SEND YOUR CHILD TO A LESS EXPENSIVE SCHOOL

You may have dreamt that your child would follow your footsteps and attend a private school, however, you may need to lower your expectations. Sending your child to a public school with a similarly high standard of education at a far lower cost could save you thousands of rand come the end of your child's school career.

5. INCREASE YOUR EARNINGS NOW

You might consider increasing your hours at your current job (if it pays overtime), finding another high-paying job, taking a second job or having a previously stay-at-home spouse return to the workforce.

Gallo Images/Thinkstock

Neville Berkowitz

Selling your home: What will it cost?

BY GLENDA WILLIAMS

Uppermost in the mind of the homeowner when selling their home is capital profit. Likely to be a secondary consideration is how much that sale is going to cost. But cost it will. The question is, how much?

On average, homeowners reside in their homes for eight years before selling, so the capital gain after this time is likely to be considerably more than chump change.

According to Absa figures, the capital profit of an average medium-sized home purchased in 2006 for R637 300 and sold in 2014 for R1 194 200 would have been R556 900 over that time. Little wonder then that many homeowners, basking in the glow of a healthy profit, pay less attention to the cost of the sale or to how much will it erode that capital profit.

Yet, selling your home requires giving away a sizeable chunk of that profit. In South Africa, unless you are attempting a DIY project, that generally means money paid to either an estate agent or an auction house. But there is also a new kid on the block, a low-cost online estate agency looking to buck traditional trends.

Image/Rhodes Photographic

1 ESTATE AGENT

The estate agent platform has a long and proven record and is the method of choice in the country. Bound by the rules and regulations of the Estate Agency Affairs Board, estate agents have the expertise and knowledge to manage the selling and purchasing requirements on behalf of a homeowner. The platform requires little effort from the seller. Estate agents manage the entire process from marketing, viewings and show days to negotiating with both buyer and seller.

WHAT YOU CAN EXPECT TO PAY

(BASED ON SALE PRICE OF R1 194 200 AND CAPITAL PROFIT OF R556 900)

Average estate agent's commission: 8.55% (7.5% plus VAT)
Cost of commission: R102 104
Net profit after commission: R454 796
Percentage of commission on capital profit: 18.3%

REASONS FOR USING AN ESTATE AGENT: No sale, no commission. And commissions are not set in stone; lower rates can be negotiated.

2 AUCTION

Less common is the selling of homes by auction. Locally there is still somewhat of a stigma attached to the selling of homes by auction as this is the platform typically used to sell repossessed residences. Contrast this with countries like Australia where the auctioning of homes is the norm. But the auction image may be changing. Joff van Reenen of High Street Auctions tells *Finweek* that 95% of their residential properties are private sales and very few are legal sales (e.g. reposessions). But for High Street Auctions, the "auctionability" of the property is what counts. And it is one of the reasons why around 50% of properties are not accepted for auction, having not met their ratings criteria.

WHAT YOU CAN EXPECT TO PAY

(BASED ON SALE PRICE OF R1 194 200 AND CAPITAL PROFIT OF R556 900)

Auction commission fee: 11.4% (10% plus VAT). Paid by buyer*
Marketing costs: Approx. R13 680-R22 800 (incl. VAT) and upward
Net profit after marketing costs: R544 900–R536 900
Percentage of seller's costs on capital profit: 2.5%-4% and upwards depending on property and marketing requirements.
**If seller refuses a sale that meets the reserve price (minimum price required by the seller) then seller is also liable for the commission fee.*

REASONS FOR USING AN AUCTION HOUSE: On average, properties stay on the market for 12 weeks before selling. For sellers requiring a quicker process, auctions, which occur monthly or even weekly, may be the solution. Sales are non-conditional and immediate as the platform requires cash or pre-approved finance buyers. Buyers pay the commission fee and auctions also present the opportunity of securing a sale in excess of the reserve price. But sellers do incur marketing costs whether or not the property sells.

3 DIY

Homeowners predominantly concerned with the cost of the sale are more likely to consider selling their home themselves. While there may be savings to be had, attempting to go it alone could end up costing as much as a traditional platform. Sellers should also bear in mind that buyers of properties sold by owners may look to split the savings that would normally be incurred on agent's commission, so there is the potential that they would not walk away with the full proceeds of those savings.

WHAT DIYERS CAN EXPECT TO PAY

(BASED ON SALE PRICE OF R1 194 200 AND CAPITAL PROFIT OF R556 900)

Valuer and legal fees: Average approx. R10 000-R20 000
Net profit after fees: R536 900
(excludes online marketing fees)
Cost on capital profit after fees: 1.8%-3.6%.
Around 5% if also marketing online.
OR
Split saving on agent's commission:
R51 052 (50% of R102 104)
Net profit after buyer split: R505 848
Cost on capital profit after split: 9.2%

REASONS FOR DIY: Potential savings can be derived if the homeowner is contract savvy, is not averse to showing strangers around the property and has the time and expertise to market the property both on the ground and online. DIY could be a draw card when a neighbour, friend or family is interested in purchasing the property.

4 LOW-COMMISSION ONLINE ESTATE AGENCY

Costs count and this is something the online estate agency aims to address. Neville Berkowitz, a pioneer of property economics in South Africa and founder of recently launched online estate agency HomeBid, believes the low-commission agency has created a cost-effective solution for many homeowners, especially private sellers. Unlike a traditional estate agent, an online estate agency only provides its services online. But, says Berkowitz, it comes with the professional services that a seller requires. This includes a registered valuer, internet marketing specialists, private bankers and property attorneys. "By the end of 2016 we want to be doing 1 000 homes a month and in five years, be the market leader," says Berkowitz.

WHAT YOU CAN EXPECT TO PAY

(BASED ON SALE PRICE OF R1 194 200 AND CAPITAL PROFIT OF R556 900)

Average commission: 1.95% (currently includes VAT but expect this figure to exclude VAT in the not-too-distant future)
Cost of commission: R23 287
Net profit after commission: R533 613
Percentage of commission on capital profit: 4.2%

REASONS FOR USING AN ONLINE ESTATE AGENCY: Low commission. As well as offering pre-qualified buyers, this platform offers the necessary professional services required to conclude the sale agreement between successful bidders/buyers and sellers. ■

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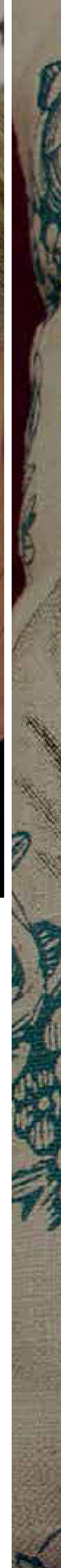
Anne Richardson brings acquired knowledge and passion for fabric design to the world of interior decorating.

Anne Richardson



Living in the **material world**

BY JON PIENAAR

It has been a year since Anne Richardson of Annapatat first flung open the doors of her textile shop in a restaurant-studded road in Muizenberg, in Cape Town's False Bay. Richardson's partner owns a book dealership in the town, which is considered the home of South African surfing. Before that, on the days that she'd be asked to keep an eye on the book dealership, Richardson would often stare out across the road and wonder what it would be like to own her own shop.

As a creator and maker who specialises in home décor and textiles, Richardson began her career by studying clothing design at a technikon and working in the South African garment industry, before moving to London to try to get into the fashion industry.

But London's trendy clothes sector proved to be a closed shop for a fresh-faced girl from South Africa, so she reinvented herself and found a new career path – interior home furnishing. Today Richardson – through her brand Annapatat Home Decor – works with homeowners and interior designers to create curtains, cushions, linen and other fabric design elements.

For some 15 years, Richardson consulted to the wealthy elite in London. She met her partner, Andrew Berki, a dealer in rare books, at a market in the UK. The couple eventually decided to make the move to Cape Town. Berki set up shop in Muizenberg, and Richardson continued her interior decorating business, making curtains and doing whatever she could with fabric.

"I'm passionate about textiles," says Richardson. "The moment I picked up a sewing machine I was hooked, at the age of 18, I just loved it. I loved the fact

Anapatat stocks a select range of South African designed fabrics. Owner Anne Richardson has a passion for the 'new wave' coming from designers like Design Team and Skinny laMinx.

that I could cut something out, zip-zip-zip and in a few hours, have a beautiful thing that I can wear or use."

NEW BEGINNINGS

When the shop across the road from Berki's Rattlesnake Books became available, Richardson decided to take the plunge and make it her own. An Afrikaans friend had given her the nickname Annapatat, and she loved the quirky ring to this moniker, so that became the name of the store.

Richardson stocks fabrics from lines that she feels passionate about, like Skinny laMinx and Design Team. These are South African designs that draw inspiration from recognisable South African motifs that are a part of our popular culture. These range from the elegant to the quirky – a Karoo windmill as a curtain design? Or how about *Drum* magazine covers from the 1950s? But the minute you see these fabrics you just understand why they work and are reinventing local textile design.

"When I opened my shop, I wanted to do local textiles and the sort of textiles you don't see in London. Because I think we have some very special designers, doing very unique work that you seldom see," says Richardson.

Ever crafting and trying new things, Richardson also makes her own designs, using lino-printing, fabric painting and stitching.

At first, opening a shop was scary, Richardson admits, but now she knows it was worth it, saying: "I have never had my own retail space before – I worked from home and did market stalls before. I have learned that having your own retail space is great because it opens you up."

Images/ Jon Pienaar

One passer-by who looked into her window and saw her interesting range of fabrics was a buyer for the Woolworths Artisan Collection. The buyer picked up a cushion that sported one of Richardson's own lino-print designs, asking her if she could buy the fabric by the metre. "I ended up getting an order from Woolworths for these cushions that I print. Which is fantastic – I mean, to get in with Woolworths is a dream. I can't believe it, I'm still pinching myself," says Richardson.

Woolworths Artisan Collection is a range of handcrafted products that have been created by local designers, artists and makers, which the retailer says is a strong trend that will be amplified this winter.

Artisan Collection is only available in selected Woolworths stores, as this type of product, by its very nature, cannot be mass produced. A giant retailer like Woolworths assists small makers like Richardson, not only by buying their products, but also generating exposure for them.

South African motifs inspire modern designs that evoke a love of our natural heritage.

Quirky, fun and inventive – fabric designs reassert South African culture and find new meaning in old motifs.

SPREADING THE WORD

Richardson's passion is infectious, and now she is using her space on weekends to teach sewing and lino printing. This provides an added source of income to offset the more long-term projects that only pay at the end. "Ever since I've worked for myself, in London and here, I've never relied on one thing. Because I think you've got to try and diversify. Even in London I did a market stall, and I did the curtains and blinds. So I used to go to India, buy beautiful textiles, have a market stall that brought in cash every Saturday," says Richardson.

As for marketing, Richardson says that she has tried taking out ads in magazines, but they didn't work for her. "Now I just do Facebook and put my sandwich board outside my shop, because I can pull lots of people from the nearby restaurants. The fabrics are striking so people see the fabrics. My window is a big advertising space and really draws people in."

> "WHEN I OPENED MY SHOP, I WANTED TO DO **LOCAL** TEXTILES AND THE SORT OF TEXTILES YOU DON'T SEE IN LONDON."

Richardson says that word of mouth has been her greatest ally – she has attracted more business through recommendations than anything else. This she puts down to always doing every job to the best of her ability. "I will not leave a job until I'm happy with it. And I think people appreciate that," she says.

Creative excellence is always a sustainable business model, something that Annapatat's growth and success proves. ■

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Vodacom to expand niche offerings

BY GUGU LOURIE

Vodacom, South Africa's biggest mobile phone operator in terms of subscribers, plans to scale up its niche funeral and life insurance business.

The mobile phone operator, which is 65%-owned by British mobile giant Vodafone, provides life and funeral insurance. It also provides device insurance services to both contract and prepaid customers in SA.

Vodacom, which is valued at more than R200bn, has more than 32m customers in SA. The company has 27.2m prepaid users and 4.9m contracted subscribers. Presently Vodacom provides device insurance to only 7% of its contract subscribers – a situation that leaves significant room for growth in this offering. The total insurance market in SA is worth approximately R61bn.

"Our focus has mainly been on device insurance, but we intend to scale up our funeral and life insurance business," the company said in its latest annual report.

The move by Vodacom is part of its strategy to diversify its revenue streams.

With mobile voice declining 4.6% and the impact of lower mobile termination rates – the rates one network operator pays another to put through calls to its network – shaving R2bn off Vodacom's revenue line and another R1.2bn off its EBITDA line in the 2015 financial year, the company has had to think of ways to support growth as its home market matures.

To build resilient revenue streams and secure future growth opportunities, Vodacom is investing in diversifying its business in a number of focused ways. These include selling financial services products such as insurance, providing content, connectivity for machine-to-machine services, fibre-to-the-home and ecommerce.

Vodacom already regards the insurance portfolio as a noteworthy business. It generates about R441m in revenue. The mobile operator says its insurance business portfolio has been growing steadily at 36% a year.

"On average the device insurance business processes approximately R1m in claims per working day. The number of policies in our long-term assurance business grew more than 100% off a small but fast-growing base," the cellphone operator said.

The number of active smart data devices on Vodacom network rose 29.7% to 11.6m (of which 9.3m are smartphones, 1.1m tablets and 1.2m modems) in the year to end March, fuelled by more affordable devices.

Vodacom has sold more than 3m low-cost smart devices, including Vodacom-branded Smart Kicka and Smart Tab, which sold more than 1m units since launching in the third quarter of 2015 fiscal year.

The company's insurance business can grow exponentially by signing up the 93% of its contract customers that are not yet using its device insurance offering.

"We will continue to use our customer value management system to market insurance products to our existing customer base. Customer demand for life and device insurance is growing," said Shameel Joosub, Vodacom's CEO.

"Despite the macroeconomic pressures in our market, it's really important that we invest effectively in each of our growth pillars to ensure we diversify our revenue streams."

With 93% of its contract customers not covered by its handset insurance, Vodacom is set to be a big player in this space and will continue to receive more revenues from this financial services product. ■

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THE COMPANY'S INSURANCE BUSINESS CAN GROW EXPONENTIALLY BY SIGNING UP THE **93%** OF ITS CONTRACT CUSTOMERS THAT ARE NOT YET USING ITS DEVICE INSURANCE OFFERING.

The Vodacom Group's headquarters in Johannesburg

Dean Hutton/Bloomberg via Getty Images

Directors' Dealings

Company	Director	Transaction Date	Transaction Type	Volume	Price (c)	Value (R)	Date Modified
DATATEC	JP Montanana	10 June	Purchase	82,118	6074	4,987,847	12 June
DATATEC	JP Montanana	11 June	Purchase	130,000	6775	8,807,500	17 June
DATATEC	JP Montanana	11 June	Sell	232,118	6775	15,725,994	17 June
DATATEC	CS Seabrooke	10 June	Sell	200,000	6675	13,350,000	17 June
ESOR	EG Dube	8 June	Sell	7,305,182	30	2,191,554	12 June
FAIRVEST	DM Wilder	10 June	Purchase	239,000	174	415,860	12 June
FAMBRANDS	P Halamandaris	10 June	Sell	21,828	11320	2,470,929	17 June
FAMBRANDS	P Halamandaris	11 June	Sell	6,612	11336	749,536	17 June
FAMBRANDS	P Halamandaris	12 June	Sell	18,242	11308	2,062,805	17 June
GROWPNT	HS Herman	12 June	Purchase	2,159	2532	54,665	17 June
GROWPNT	HS Herman	12 June	Sell	80,000	2509	2,007,200	17 June
HCI	JA Copelyn	10 June	Exercise Options	83,601	15773	13,186,385	17 June
HCI	TG Govender	10 June	Exercise Options	31,987	15773	5,045,309	17 June
HOMECHOICE	S Maltz	8 June	Exercise Options	25,000	747	186,750	10 June
HOMECHOICE	S Maltz	8 June	Sell	25,000	3800	950,000	10 June
IMPLATS	TP Goodlace	12 June	Purchase	5,000	5915	295,750	17 June
IMPLATS	B Swanepoel	8 June	Purchase	10,000	5899	589,900	10 June
KAP	G Chaplin	8 June	Purchase	40,205	554	222,735	11 June
KAP	G Chaplin	9 June	Purchase	659,795	560	3,694,852	11 June
MMG	RB Dick	11 June	Exercise Options	800,000	800	6,400,000	12 June
NAMPAK	AM de Ruyter	10 June	Purchase	29,500	3328	981,760	12 June
NAMPAK	PA de Weerdt	9 June	Sell	73,533	3357	2,468,502	10 June
NEDBANK	MA Matooane	11 June	Purchase	2,085	23757	495,333	12 June
OASIS	N Ebrahim	10 June	Purchase	1,189	396	4,708	10 June
OCTODEC	MZ Pollack	10 June	Purchase	108,773	2170	2,360,374	11 June
SACOIL	D Matroos	10 June	Exercise Options	4,833,333	2331	112,664,992	12 June
SANLAM	S Bray	4 June	Sell	12,359	6788	838,928	11 June
SANLAM	S Bray	4 June	Sell	12,359	6788	838,928	11 June
SANLAM	S Bray	5 June	Sell	9,753	6900	672,957	11 June
SANLAM	JP Möller	4 June	Sell	100,694	6788	6,835,108	11 June
SANLAM	JP Möller	4 June	Sell	43,298	6788	2,939,068	11 June
SANLAM	JP Möller	4 June	Sell	25,129	6788	1,705,756	11 June
SANLAM	JP Möller	5 June	Sell	54,047	6900	3,729,243	11 June
SANLAM	TI Mvusi	4 June	Sell	51,975	6788	3,528,063	11 June
SANLAM	TI Mvusi	4 June	Sell	25,129	6788	1,705,756	11 June
SANLAM	TI Mvusi	5 June	Sell	23,488	6900	1,620,672	11 June
SANLAM	Y Ramiah	5 June	Sell	22,838	6900	1,575,822	11 June
SANLAM	J Van Zyl	4 June	Sell	105,871	6788	7,186,523	11 June
SANLAM	J Van Zyl	4 June	Sell	172,253	6788	11,692,533	11 June
SANLAM	J Van Zyl	4 June	Sell	45,525	6788	3,090,237	11 June
SPAR	K O'Brien	12 June	Sell	6,600	18103	1,194,798	17 June

Dividend ranking

SHARE	FORECAST DPS (c)	FORECAST DY (%)
REBOSIS	109	9.2
VUKILE	148	8.4
OCTODEC	192	8.2
REDEFINE	80	7.9
ACCPROP	49	7.8

SHARE	FORECAST DPS (c)	FORECAST DY (%)
PAN AFRICAN	15	7.5
ASTRAL	1200	7.3
EQSTRA	24	7.1
GROWTHPOINT	174	6.8
A V I	525	6.6

How the **Navy SEALs** train for leadership

BY MICHAEL SCHRAGE

Almost every world-class organisation takes training and education seriously. But the US Navy's special operations forces, the SEALs, go far beyond. Their dedication to relentless training and intensive preparation, however, is alien to the majority of businesses worldwide. That's important because excellence requires more than commitment to educational achievement.

As an educator, I fear that business schools and businesses overinvest in "education" and dramatically underinvest in "training". Leaders and managers get knowledge and education, while training and skills go to those who do the work. That business bias is dangerous. The SEALs can't afford it. "Under pressure," according to the SEALs, "you don't rise to the occasion; you sink to the level of your training. That's why we train so hard." Many talented organisations find it difficult to innovate and adapt under pressure. A factor may be people who are overeducated and undertrained.

Brandon Webb, an innovative SEAL trainer/educator and now CEO of Force12 Media, served in the US Navy from 1993 to 2006 and redesigned the SEAL training course curriculum.

HE EMPHASISES FOUR TRAINING THEMES:

Produce excellence, not 'above average'

"Training programmes shouldn't be designed to deliver competence; they must be dedicated to producing excellence," Webb said. "Serious organisations don't aspire to be comfortably above average."

Training divorced from excellence is mere compliance. It is more "box-ticking" than human capital investment. Is "above average" training really worth the time, energy and expense? Webb's perspective poses a challenge to most organisations' views of human resources. Do they really want training to bring out the best in their people? Or does everyone train with the expectation that excellence matters less than being a bit better?

Reward excellence, not competence

Organisations need recognition and reward systems that explicitly acknowledge and promote excellence. And, says Webb, they also need the courage and integrity to replace those who can't – or won't – step up.

Should training overwhelmingly focus on skills enhancement? Or must it be managed to build better bonds and relationships throughout the enterprise? Webb unambiguously champions both. The training transformation made the SEALs culture more open to innovation and exchange. Incentives that facilitated accountability improved the entire organisation, not just the trainees.

Incorporate new ideas from the ground

Successful training must be dynamic, open and innovative. Ongoing transformation – not just incremental improvement – is as important for trainers as trainees. "It's every teacher's job to be rigorous about constantly being open to new ideas and innovation," Webb says. "It's a huge edge, sometimes life-saving, to adopt a good idea early and put it into practice. As an instructor I learnt that you are never done learning, and your students can be a wealth of information."

Lead by example

Arguably Webb's most passionate training theme reflects his battlefield experiences. The most important training behaviour a leader can demonstrate, he asserts, is leading by example. "Leading by example means never asking your team to do something you aren't willing to do yourself," Webb writes. "This can't be faked; do it right and your team will respect you and follow you."

The level of motivation, dedication and self-sacrifice the SEALs demand from themselves and one another goes far beyond what most businesses and business schools should ever ask, let alone expect, from their people. No one doubts the role that education plays in creating and sustaining economic competitiveness worldwide. But it's long past time that CEOs, boards, business schools and universities revisit what world-class training should mean. ■

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TEST YOUR **KNOWLEDGE**

Welcome to this week's quiz! Here's your chance to test your general knowledge and to check whether you're on top of the past few days' happenings. Complete the quiz on Finweek.com to find out the answers.

finweek

1 **True or false?** South Africa has missed the deadline to migrate from analogue to digital broadcasting.

2 **True or false?** Robert Mugabe is the chair of the African Union.

3 **True or false?** Cell C has been embroiled in a damaging strike as employees demand higher wages.

4 Who is Angela Merkel?

5 Name the capital of Sudan.

6 Who is Rachel Dolezal?
- A UK singer
- A human rights activist
- Miss South Africa 2015

7 Which billionaire businessman recently announced his candidacy for president of the US?

8 What is Lesetja Kganyago's title?

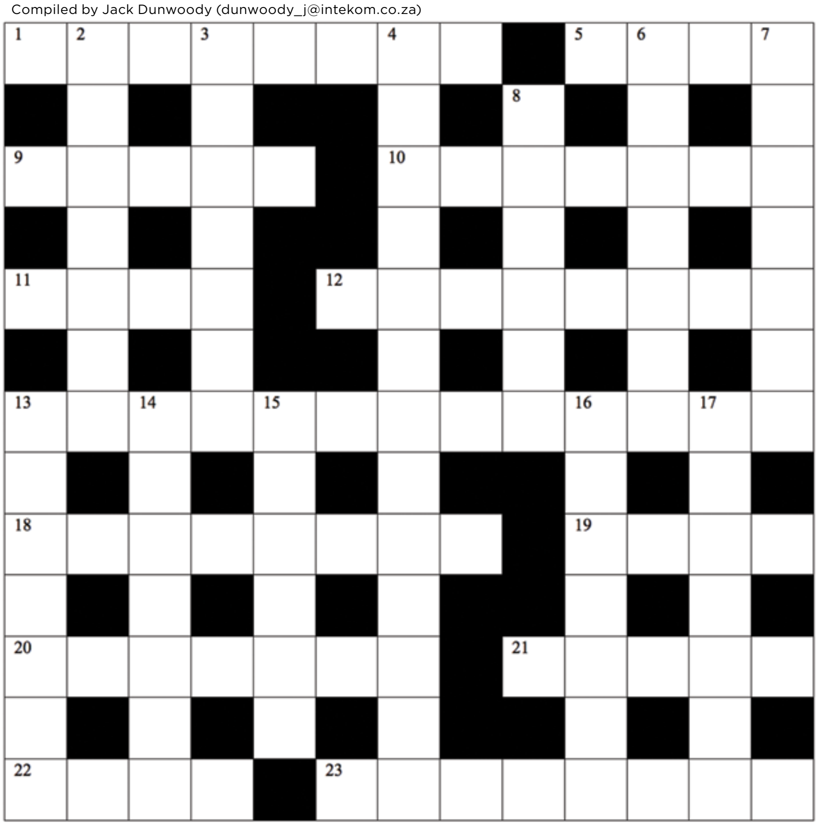
9 Which South African musician was recently awarded an Order of the British Empire (OBE)?
- Johnny Clegg
- Hugh Masekela
- Yvonne Chaka Chaka

10 In last week's edition, dated 18 June, we featured "the world's largest credit card company you've probably never heard of". Which is the company concerned?
- SBI Credit
- GoldCard
- UnionPay

CRYPTIC CROSSWORD

NO 587 JD

Compiled by Jack Dunwoody (dunwoody_j@intekom.co.za)



ACROSS

1 I can drag out the winter woolly (8)
5 Along with a famous band (4)
9 Independent to the end, a knight on a personal whim (5)
10 Commander having no alternative, issues final orders (7)
11 Dominant old part of London (4)
12 A leading market magazine features sour cherry (8)
13 Whip ten antisocial members into shape (3-1-4-5)
18 Groan! Man puts on a little weight (8)
19 Little woman with a new gripe (4)
20 Originally French friend completed the paperwork (7)
21 Familiar French in France is mostly hard to follow (5)
22 Dressing in Ireland (4)
23 Writer companion to soldier, say, showing partiality (8)

DOWN

2 Head band? (7)
3 Cruel not being in charge of game (7)
4 Contentious debate about Evita (13)
6 Rock singer role playing on the French island (7)
7 Female Conservative in a pickle over seafood (7)
8 No longer down? (4,2)
13 Conventional person not first to toe the line (7)
14 Paddy, not having a drink, meets lady at full gallop (7)
15 Railwaymen backing a horse into cargo boat (6)
16 High-sounding alarm adapted for wardrobe (7)
17 Worry about one son's secret romance (7)

Solution to Crossword NO 586 JD

ACROSS: 1 Right-winger; 9 Admirer; 10; Curse; 11 Attic; 12 Atelier; 13 Agnate; 15 Target; 18 Aerator; 20 Sprig; 22 Alien; 23 Enliven; 24 Pretty smart

DOWN: 2 Immit; 3 Haricot; 4 Warsaw; 5 Nacre; 6 Earring; 7 Panama canal; 8 Secret agent; 14 Narkier; 16 Absalom; 17 Artery; 19 Tenet; 21 River

ON MARGIN

DRAMA IN THE THEATRE

A man lay sprawled across three entire seats in the posh theatre. When the usher came by and noticed this, he whispered to the man, “Sorry, sir, but you’re only allowed one seat.”

The man groaned but didn’t budge. The usher became impatient. “Sir, if you don’t get up from there I’m going to have to call the manager.”

Again, the man just groaned, which infuriated the usher, who turned and marched briskly back up the aisle in search of his manager.

In a few moments, both the usher and the manager returned and stood over the man. Together the two of them tried repeatedly to move him, but with no success. Finally, they summoned the police. The cop surveyed the situation briefly then asked, “All right, man, what’s your name?”

“Sam,” the man moaned.

“Where are you from, Sam?”

With pain in his voice, Sam replied: “The balcony.”

*

Two guys have just robbed a jewellery store. They burst out the door running as they hear the sirens of police cars coming closer. The thieves dive into two separate bushes, hoping they won’t get caught. Soon the police car stops near the bushes and the two robbers, hearing footsteps, grow more nervous.

A cop then grabs one of the guys, pulling him out of the bush. “Gotcha!”

As the policeman drags the robber off, he looks back, shaking his head in shame... “Come on, John!” he shouts. “They got us!”

*

A woman dropped her handbag in the bustle of a busy shopping mall. An honest little boy noticed her dropping the handbag, so he picked it up and returned it to her.

The lady looked into her handbag and commented, “Hmm... That’s funny. When I lost my bag there was a R50 note in my purse. Now there are five R10 notes.”

The boy replied, “That’s right, lady. The last time I found a purse, the owner didn’t have any change for a reward.”

“If I find out who **tweeted** about these confidential negotiations, they’re in big trouble!”

VERBATIM

Brandon Els @TheOldCootBiker
@TraderPetri @gerhardparkin from 12:00 have a tequila every time you see Greece in your timeline. At 16:00 if you’re sober, go long the Alsi.

Teacher Dude @teacherdude
Remember kids, tomorrow is #Grexit Monday. Just like last Monday, and the Monday before that and the Monday before that and the Monday...

Holger Zschaepitz @Schuldensuehner
Nielsen on #Grexit: Arranging new banknotes wouldn’t be an easy task for a government that cannot organise a barbecue, frankly speaking.

Jennifer Wright @JenAshleyWright
If #Trump won there is at least a 90% chance he would rename the country after himself.

Phil Plait @BadAstronomer
Haven’t we already had two in the Bush? #Jeb

Michael Moore @MMFlint
You know what it looks like when you make a copy of a copy of a copy on a copy machine? It’s even worse when u split a gene a 3rd time. #JEB!

Tom Eaton @TomEatonSA
Waterkloof is our Platform Nine and Three-Quarters, where wizards with names like Bashir and Gupta pop in and out of our reality.

Ranjeni Munusamy @RanjeniM
We should have given #Bashir a baby to look after. Then he would’ve needed an unabridged birth certificate to leave.

Peter de Villiers @Coachdivvy *(Parody account)*
Even Adriaan Strauss could have caught this #AlBashir guy before fleeing and Adriaan is very slow.

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